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ABSTRACT

The volume is one of four containing lesson plans covering a wide range of business subjects incorporated in a course for American Indians to prepare them for jobs as owners/managers of their own businesses and for management positions with businesses owned by bonds, cooperatives, and others. Lessons are drawn from different subject areas and arranged serially. (For instructions on use of the lesson plans in this volume, see Volume I, CE 000 351. For additional lesson plans, see Volume II, CE 000 352, and Volume IV, CE 000 355.) (AG)

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CE 000 353

SMALL BUSINESS MANAGEMENT
INSTRUCTOR'S MANUAL

Training Research And Development Station
Department Of Manpower And Immigration

VOLUME THREE

ED 082054

SMALL BUSINESS MANAGEMENT

INSTRUCTOR'S MANUAL

VOLUME III

THIRD EDITION

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TRAINING RESEARCH AND DEVELOPMENT STATION
DEPARTMENT OF MANPOWER AND IMMIGRATION

PRINCE ALBERT, SASKATCHEWAN

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ESTIMATED TIME REQUIREMENTS

VOLUME III

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SUBJECT PRODUCTION MANAGEMENT

LESSON PROD5 OBTAINING AND MAINTAINING EQUIPMENT

INSTRUCTOR'S GUIDE

OVERVIEW

Equipment which is important in most production operations can range from complex machines to very simple tools. This lesson looks at general purpose equipment and special purpose equipment. It also looks briefly at the methods of obtaining equipment - purchase or lease. It does not dwell in length upon any special areas because each small production plant will require specific equipment for production. Rather the lesson shows that before getting equipment the owner-manager of a small plant should determine exactly what type he needs, how he will obtain it and how he will maintain it. If large amounts of money are to be paid out for equipment the owner-manager should get expert help in planning his needs.

OBJECTIVE

For a given situation the student will decide what equipment is required and how he will pay for it.

REFERENCES FOR THE INSTRUCTOR

1. The Canadian Institute of Chartered Accountants. New Concepts in Leasing. Toronto: The Canadian Institute of Chartered Accountants, 1969.

2. Harrison, N.T. "Rented Tools Can Improve Efficiency", Technical Aids for Small Manufacturers. Washington: Small Business Administration, March - April, 1962, No. 79.

RESOURCES REQUIRED

1. Case PROD5, "Buying Equipment"

METHODOLOGY

1. Hand out the Readings.
2. Read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss the things you should investigate when obtaining equipment for your plant. You will also discuss the need for setting up a maintenance plan for the equipment you use.

INTRODUCTION

Equipment includes everything used in manufacturing except materials and housing. Machinery, tools, fixtures and so on are the equipment needed for manufacturing. The costs of obtaining the equipment (through purchase or rent) can range from just a few dollars to very large investments. It is, therefore, important that the small-plant operator obtain equipment that will fit his needs at a cost he can afford. Once he has the equipment he should set up a maintenance program to reduce the down time on equipment as much as possible.

3. Discuss and clarify Purpose and Introduction.

OBJECTIVE: FOR A GIVEN SITUATION THE STUDENT WILL DECIDE WHAT EQUIPMENT IS REQUIRED AND HOW HE WILL PAY FOR IT.

Stimulus

4. Ask if knowing how to obtain and maintain equipment is important.

Clarify Problem

5. Discuss answers to question above and ask students to state the "why" and "how" of their answers.

Provide Information

6. Read Sections 1, 2 and 3 of the Readings and discuss.

CONTENT

1. Equipment

In a production operation there is a need for machines, handling equipment, fixtures, and tools. Equipment used in any particular plant will depend upon the requirements of that business. When obtaining equipment you, as the manager, will be responsible for matching the equipment with the requirements of your plant.

Some of the questions you will have to answer are:

a. Should you use special purpose machines or general purpose machines?

b. Does it cost more to buy or lease equipment?

c. What are the costs of setting up preventative maintenance programs?

d. What are the costs of setting up corrective maintenance programs?

Equipment is used to help you produce and handle your product. Therefore you must match the equipment to the job.

2. General Purpose Equipment

This type of machinery can perform basic operations on a number of products. Such standard equipment is a lathe, milling machine, grinder, plane, drill press and borer, and shearing and pressing machines. General purpose machines are those built to perform a large number of tasks.

3. Special Purpose Equipment

Special purpose equipment is machinery that can perform only a very limited number of tasks involving few materials.

The limited use of special purpose machines can be an advantage if the machine is properly designed; it may be possible to speed up production since the machine does not have to be set up or reset. Special purpose machinery is efficient if the product is standardized, and the sales volume is enough to absorb the cost of obtaining the equipment.

7. Ask the students factors to consider when regarding cost of equipment. List answers on the flip chart.

8. Ask how students would finance equipment. List answers on the flip chart.

9. Read Section 4 of the Readings and discuss.

4. Cost of Equipment

There are actually two ways to get the equipment you will need for a small manufacturing plant. One is by purchasing, the other is by leasing. When deciding on which method you will use, carefully study the effect your method will have on the long-term operation of your business.

a. Purchase of Equipment
Advantages:

(1) You own the equipment and can do what you wish with it (with the agreement of anyone holding a chattle mortgage on it).

(2) You can use the depreciation on the equipment in your financial statements.

(3) The equipment is an asset on your books.

Disadvantages:

(1) You must find someone willing to loan you the money to purchase the equipment.

(2) All repairs will be your responsibility.

b. Leasing the Equipment
When you lease equipment you agree to pay the owner of the equipment an agreed upon amount for the use of the equipment for a stated period.

(1) Most leases will contain the following:

(a) Date of agreement

- (b) Names of lessor (owner) and lessee
- (c) Description of the property
- (d) Length of lease
- (e) Manner of payment of rent
- (f) Responsibility for repairs.

(2) Advantages of leasing

- (a) Leasing is a means of securing the use of profit-producing equipment with low funds.
- (b) Leasing frees funds for other purposes.

(3) Disadvantages of leasing

- (a) High cost over a long period of time.
- (b) Not all equipment can be obtained through leasing.

When obtaining equipment, investigate the financial arrangements that are available for purchase of the equipment. Weigh these costs against the long-run benefits for your business. If you are investing in high priced equipment, secure expert help.

10. Read Sections 5, 6, 7, and 8 of the Readings and discuss.

5. Maintenance of Buildings and Equipment

Have you heard the saying "an ounce of prevention is worth a pound of cure"? This saying applies to plant maintenance. You should keep your plant equipment in good working condition if you want to run a successful production business. If you don't maintain (fix up, repair) your buildings and machinery you are asking for trouble.

a. Two Kinds of Maintenance
Plant maintenance refers to the things you do to keep your buildings and equipment in good working condition.

(1) Preventative Maintenance
Prevent equipment from breaking down.

(2) Corrective Maintenance
Correct (repair) equipment after it has broken down.

6. Why is PREVENTATIVE MAINTENANCE Important?

If you prevent things from breaking down you will save yourself time and money. Breakdowns cause spoiled and damaged products, as well as delay. It is easier to prevent trouble from happening than it is to correct (fix) the trouble after it has already occurred.

Here are some points you should follow in your preventative maintenance program:

a. Inspect your buildings and equipment regularly (for example, every week, month or year). This way you will find wear and tear before things break down.

b. Service your buildings and equipment. For example:
   - paint buildings regularly
   - oil and grease equipment regularly.

c. Keep records of the service needs of your plant.

d. Make sure service work is done correctly and at the right time.

e. Follow proper operating procedures. For example, don't overload or overheat your equipment.

f. Keep a spare machine (or parts) handy in case one breaks down. Sometimes things will break down no matter how careful you are; if you have a spare on hand you can keep your production plant running.

7. Why is CORRECTIVE MAINTENANCE Important?

Once something breaks down you should fix it as quickly as possible. When things in your plant are not working you will not be able to produce products. This may cost you money. You may lose customers.

Here are some points you should follow once you have a breakdown:

a. Be sure to find the cause of the breakdown.

b. Repair things as soon as possible. If you wait things will only get worse.

c. Look for fast and cheap ways to make repairs. This will shorten the time your plant is out of operation and will save you money.

d. Make sure you have a place to do the repair work. You may be able to do a lot of your own repair work. If so, you should have a roomy, clean and well lit place to do your maintenance work.

You may have to get some things repaired by sending them out to a repair shop. You should make contracts with these repair shops as soon as you start business.

But remember, the best way to fix breakdowns is to prevent them from happening.

8. Summary

When you, as the Small Business manager, are considering buying or renting new or additional equipment you must weigh the initial cost, the costs of maintaining the equipment, the costs of operating the equipment, and the length of life of the equipment. In addition you must consider the costs of the operators who run your equipment as well as the people who repair or maintain your equipment.

In a production operation the cost of equipment represents a large investment; therefore, careful consideration must be taken to ensure that you are getting the proper equipment at a cost that you can afford.

Indicator

11. Hand out the case and read.

12. Discuss the questions at the end of the case, having students come up with a recommendation on what equipment to buy and the reasons for their recommendations.

SUBJECT · PRODUCTION MANAGEMENT

LESSON PROD5 OBTAINING AND MAINTAINING EQUIPMENT

CASE PROD5 - 1

BUYING EQUIPMENT

Jack McLeod was preparing the first plans for the Pine Bluff Handicraft Co-operative. He estimated costs of obtaining raw materials, constructing the building, employing clerks and production workers, as well as paying his own salary. He contacted several large department stores and some government selling agencies and estimated possible sales through them. He also contacted the government tourist agency, and learned approximately how many tourists came into the area. He used this information to estimate his retail sales. His major problem now was to ensure that production could keep up with the estimated sales.

Jack foresaw no difficulties in meeting the estimated sales. Jack knew that not only the people who presently did the work would be available to work on kits, but that many of the younger people would become interested in this type of work and therefore his potential pool of craftsmen would expand.

The Pine Bluff Handicraft Co-operative promoted their products as hand-made. The kits were cut out, sewn and decorated by hand. Shortly after the Co-operative was in operation, Jack was approached by a salesman from a large company who specialized in making machines to cut and sew leather. In the discussion the salesman showed Jack that by using a cutting machine he would only require four workers in the production area. By using two sewing machines for finishing kits he could speed up production and reduce the amount of piece-work contracted out by at least one-half. The cutting machine would cost about $1,000.00. The sewing machines would cost about $800.00 each.

Jack didn't really know if getting the machines was a good idea. The original idea of the business was to create jobs. By obtaining the machines he would not need as many people working for him as he did now. Costs would be lower but the strong selling point that the items were "hand-made" would be lost. Jack decided he had better discuss this with the Board of Directors.

Question for Discussion

1. Would you recommend that the Pine Bluff Handicrafts Co-operative purchase the cutting machine and the two sewing machines or not? Why?

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD6 QUALITY CONTROL

INSTRUCTOR'S GUIDE

OVERVIEW

An area which must be of major concern to any business producing a product is quality control. A poor quality product gives a business a bad name. A bad name leads to declining sales, because of a lack of repeat customers as well as fewer initial sales. Without sales, financial disaster is the outcome.

This lesson examines the steps which can be taken to ensure a product meets the required quality. It looks at the stages when inspection can be carried out to spot defective and/or non-standard products. The steps to be taken to correct poor quality production fall into two areas, Preventive Steps and Inspection Steps.

The lesson doesn't go into actual sampling techniques because of the mathematical nature of such procedures. The instructor, if he so wishes, could easily develop examples of sampling to illustrate how they are used.

The film, "Quality Control", is used to summarize the lesson. This film discusses quality control in a large plant and it is the instructor's responsibility to relate the techniques used in large business to small businesses such as the students are familiar with or likely to come into contact with. It would be useful to stress the point that small businesses have much to learn from large businesses in the area of production because the problems are the same and only size is different.

The case is used as an indicator of how the students can apply the principles of quality control to an actual situation. The problems in the case will be similar to those that they will have to face if they become involved in production management.

PROD6

OBJECTIVE

The students will state the steps they would take to ensure the quality of a given product.

REFERENCES FOR THE INSTRUCTOR

1. Archer, Maurice. An Introduction to Canadian Business. Toronto: McGraw-Hill Co. of Canada Ltd. 1967, ch. 43.
2. Buffa, Elwood S. Modern Production Management. 3rd ed. Toronto: John Wiley and Sons, Inc. 1969, ch. 20.
3. Durand, Robert Y. Business: Its Organization, Management and Responsibilities. Englewood Cliffs, N.J.: Prentice-Hall, Inc. 1958, pp. 220 - 221.
4. Garrett, Leonard J. and Silver, Milton. Production Management Analysis. New York: Harcourt, Brace and World, Inc. 1966, ch. 20.
5. Hastings, Paul G. Introduction to Business. Toronto: McGraw-Hill Co. of Canada Ltd. 1968, pp. 122 - 125.
6. Keith, Lyman A. and Gubellini, Carlo E. Introduction to Business Enterprise. 3rd ed. Toronto: McGraw-Hill Co. of Canada Ltd. 1971, pp. 342 - 345.
7. Steinmetz, Lawrence et al. Managing the Small Business. Georgetown, Ontario: Irwin-Dorsey Ltd., 1968, pp. 387 - 391.

RESOURCES REQUIRED

1. Case PROD6, "How Can Quality Be Improved?"
2. Film, "Quality Control"
3. Production Game Kit

METHODOLOGY

1. Do not hand out Readings.

OBJECTIVE: THE STUDENTS WILL STATE THE STEPS THEY WOULD TAKE TO ENSURE THE QUALITY OF A GIVEN PRODUCT.

PROD6

Stimulus

1. Ask if any of the students have been disappointed with the quality of a product they bought.
   a. What was the product?
   b. What was wrong with the product?

Clarify Problem

2. List the products mentioned by the students on the flip chart.

3. Ask students why poor quality products, such as those listed, were offered for sale.
   a. Was poor quality intentional?
   b. Was poor quality a mistake?

4. Ask the students if they feel that the producer of the product should or could take steps to improve the quality of the product that he is selling.

5. List on the flip chart the steps the students feel the producer should take.

Provide Information

6. Hand out the Readings.

7. Read over the Purpose and Introduction.

PURPOSE

In this lesson you will discuss the importance of producing good quality products in your production plant.

INTRODUCTION

Every customer wants a certain quality in the product he buys. He also wants to be able to depend on getting the same quality. It is important to make the quality of product customers want; otherwise, you may lose customers to a competitor.

But how can a quality product be produced? How can you be sure your product is of good and consistent quality? You can do this by maintaining quality control in your production plant.

8. Discuss and clarify the Purpose and Introduction.

9. Read Section 1, part a, of the Readings and have the students discuss.

CONTENT

1. Steps in Quality Control

You can do two things to make sure that poor quality products are not produced in your production plant.

a. Take PREVENTION Steps
This means that you should do something to PREVENT poor quality products from being produced in the first place.

Some prevention measures are:

(1) Use good quality materials to make the product.

(2) Design the product well.

(3) Keep production machines in good working condition, in order that they don't produce bad products.

(4) Train production workers well, so they don't make mistakes.

Can you list any other measures you could take to prevent producing poor products in the first place? (Think of your group business project and the problems you had in producing a good quality product.)

10. Identify those steps that the students listed on the flip chart (point 5 of Instructor's Guide) that could be called Prevention Steps.

11. Read Section 1, part b, of the Readings and discuss.

b. Take INSPECTION Steps

These are steps taken to make sure the products meet certain standards.

You should know what standards or specifications should be met at each stage of producing the product. Then you can inspect the product at each stage to see if they meet the standards that you set.

Therefore, the INSPECTION process involves:

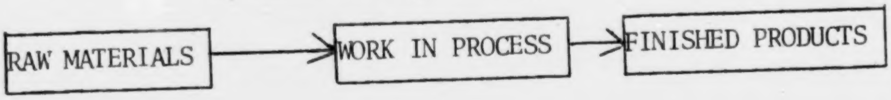
(1) Setting standards

(2) Inspecting the product to see if it meets the standards

(3) Correcting faults if the product being produced does not meet the standards.

The following diagram will help you to determine the stages necessary in the Inspection Process:

THE PRODUCTION PROCESS



The above diagram shows that producing a product involves changing raw materials into finished products. Work in process refers to the various stages of production used in making the final product.

You have to decide where inspection should take place. Usually inspection is carried out at the following stages:

- RAW MATERIAL Stage
- IMPORTANT STAGES IN THE PRODUCTION PROCESS (That is, while work is in progress)
- THE FINAL PRODUCT Stage

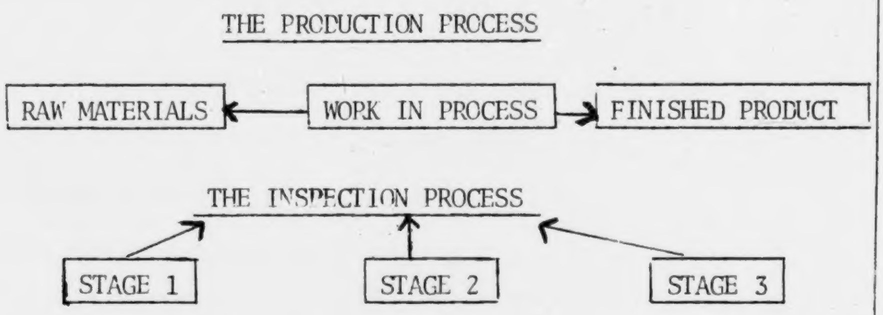
This means there must be STANDARDS set, for example:

- RAW MATERIALS QUALITY STANDARDS

- QUALITY STANDARDS FOR IMPORTANT STAGES IN THE PRODUCTION PROCESS

- FINISHED PRODUCT QUALITY STANDARDS.

Therefore, we can redraw the diagram of the production process to show the inspection process.


THE PRODUCTION PROCESS
RAW MATERIALS
WORK IN PROCESS
FINISHED PRODUCT
THE INSPECTION PROCESS
STAGE 1
STAGE 2
STAGE 3

STAGE 1	STAGE 2	STAGE 3
1. Set Standards	1. Set Standards	1. Set Standards
2. Inspect materials	2. Inspect partly finished product	2. Inspect finished product
3. Reject poor material	3. Correct problems in production process	3. Reject poor product

12. Identify those steps that the students listed on the flip chart (point 5 of instructor's guide) that could be called Inspection Steps.

13. Show the film, "Quality Control".

    a. Summary of Content

        (1) Modern enterprise seeks to control the quantity and quality of its output.

            (a) Quality control keeps track of the excellence of finished products.

            (b) Men affect quality control.

            (c) Machines affect quality control.

            (d) Materials affect quality control.

(e) Quality control cuts down on scraps and waste.

(f) Quality must be measured in terms of the end use of the product.

(g) High quality generally means higher manufacturing costs but can result in a higher selling price.

(h) Low quality results in a lower selling price.

(i) The customer and the quality he demands are important.

(2) Steps in quality control:

Step 1 -- Set quality standards. These are acceptable variations in the quality of the product.

Step 2 -- Set up an inspection system. The purpose of inspection is to delete oversize-undersize and other unacceptable parts and products.

(a) Two types of inspection are briefly discussed and illustrated.

(i) 100% inspection -- inspect every product.

(ii) Sampling -- inspect only samples (a few) of the product.

(b) Where should inspection take place?

(i) raw materials
(ii) work in process
(iii) finished goods

b. Instructions on How to Use the Film

(1) Stop film at the end of point (1) of summary of Content.

(2) Have the students summarize what quality means to the producer when selling.

(3) Ask the students who the final judge of quality is and by what he judges quality. (The final judge of quality is naturally the customer and he judges quality on his end use of the product.)

(4) Summarize the film and discuss by reading the 9 points outlined in point (1) of summary of Content.

(5) Continue the film.

(6) At the end of the film, have the students summarize the steps of quality control.

(7) Read point (2) of summary of content.

(8) Summarize the film and relate the content to small production plants with which the students would be familiar.

14. Read Section 2 of the Readings.

-2. Summary

Quality control in production involves setting standards that raw materials or the product have to meet. If poor products are produced, your business will probably lose money because:

a. If you remake the product, it will be expensive.

b. If you sell the poor quality product to the customer, he may not buy any more from your plant.

When you start a production plant of your own you will have to decide how to produce a product of good quality.

Now is the time that you should be thinking about the quality control procedures that you will use in your plant. (Decide what standards you will set, where you will carry out inspection, and what action you will take if you find out that the standards are not being met.)

Indicator

15. Have the students play the Production Game, Stage III.

16. Hand out and read case PROD6.

17. Have the students discuss the questions at the end of the case.

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD6 QUALITY CONTROL

CASE PROD6 - 1

HOW CAN QUALITY BE IMPROVED?

The Pine Bluff Handicrafts Co-operative had been in operation for two months. The operation was going well as far as getting the volume of production required was concerned. But there were complaints about the quality of some of the items sold to the large buyers.

Some of the complaints received were:

1. The hides were poor due largely to careless skinning and scraping.
2. The lining material was of poor quality. Sometimes the duffel lining sent in the kit was lost and replaced with old sheets or dress material.
3. The sewing was careless.
4. The threads were of poor quality. In many cases, cheap cotton thread was used to sew heavy moosehide. With even normal wear, the thread soon failed and the item fell apart.
5. In some cases products were received with designs out of comic books and crude contemporary designs, although for the most part, the craftsmen used the traditional designs.
6. The moccasins and mukluks were too thin-soled. They were intended to be worn with several pairs of heavy socks, even though this is not done by most people today.

Jack McLeod decided to check the reasons for the poor quality. Some of the reasons he got from the craftsmen were:

1. Many felt that they were not given the time nor the money to do a good job. They had the impression that all the buyers wanted was for them to make more and more.

2. Younger people were sewing kits. They had neither the experience nor the skills to do a good job in the time required. But if they were not given an opportunity to sell their work or if it was rejected too often, they became discouraged and quit.

3. The home-tanned hides which the craftsmen preferred were hard to get because it was a long and hard task to properly tan the hides, because the weather had to be just right or else the colour would not come out right, and because not enough people knew how to properly tan using this method.

Jack McLeod knew that he had to think of some way to make sure these complaints were corrected.

Questions for Discussion

1. What are the problems Jack faced?

2. What steps would you recommend Jack take in order to correct the quality of his products?

3. How would you implement the steps you have just recommended to Jack?

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD7 PRODUCTION COSTS

INSTRUCTOR'S GUIDE

OVERVIEW

Production requires the use of materials, labour, and production facilities or capital; these elements are known as the factors of production. Each factor represents a cost of production.

This lesson gives the student a brief glance at the area of cost accounting, which aids in the control of production. It helps to determine the unit cost of each product manufactured. If the unit cost of a product changes with a change in the volume of production, cost accounting will indicate the extent of such a change in cost. It will show the relative cost of different manufacturing methods so that the least costly can be chosen. It can be used to discover any variation of costs at different seasons or in different years.

In this lesson the student is introduced to and shown how production costs are calculated. Material costs, direct labour costs, and overhead costs are defined. The student is then shown the relationships between fixed and variable costs as production increases. Using examples, he is shown how total production costs can be calculated and illustrated. Finally, using a case, he is asked to apply the principles learned in the lesson.

OBJECTIVE

Given the necessary facts and figures, the student will calculate fixed costs, variable costs and total production costs and present them on a co-ordinate graph.

PROD7

REFERENCE MATERIAL FOR THE INSTRUCTOR

1. Buffin, Elwood S. Modern Production Management. 3rd ed., Toronto: John Wiley and Sons, inc., 1969, chp. 22.

2. Durand, Robert Y. Business: Its organization, Management and Responsibilities. Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1958, pp.360 - 371.

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5. Wood, O.T. "Pitfalls in Estimating Your Manufacturing Costs", Management Aids for Small Business, Annual No. 2, Washington, D.C. : Small Business Management, 1958, pp. 82 - 91.

RESOURCES REQUIRED

1. Case PROD7 - 1, "What Does it Cost to Make?"
2. Projectual PROD7 - 1, "Co-ordinate Graph".

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to calculate the cost of producing a product. You will also discuss the things that can increase or decrease your production costs.

INTRODUCTION

In order to calculate a selling price for your product, you must know how much it costs you to make it. How will you calculate your production costs? What things can cause these production costs to go up or come down? You have to know these things in order to run a successful production business.

PROD7

OBJECTIVE: GIVEN THE NECESSARY FACTS AND FIGURES, THE STUDENT WILL CALCULATE FIXED COSTS, VARIABLE COSTS AND TOTAL PRODUCTION COSTS AND PRESENT THEM ON A CO-ORDINATE GRAPH.

Stimulus

2. Ask students what costs would they use to calculate the production cost of a product.

Clarify Problem

3. List the answers on the flip chart and have students clarify their answers.

Provide Information

4. Read and discuss Section 1 of the Readings.

CONTENT

1. Cost of Production

To make a product you must pay for:

a. materials
b. labour
c. buildings, equipment, utilities, etc.
d. management.

All the costs of running your production plant are your total production costs. And to figure out how much it costs you to make one product, you just divide the total production costs for a period by the number of units (products) you produced in this period. For example:

$$\text{Cost per product} = \frac{\text{Production costs this month}}{\text{Number of products made this month}}$$

A better way to calculate the costs of producing one unit of product is to add up the costs of:

a. materials used to make the unit - MATERIAL COSTS
b. labour used to make this unit - DIRECT LABOUR COSTS
c. other expenses involved in producing the unit - OVERHEAD COSTS

The three types of costs are added together in order to find the total cost of production. Below is an example of how the production cost for one canoe was calculated in a canoe factory.

Material Costs

boards	$40.00	
canvas	6.00	
screws	2.00	
glue	2.00	
paint	2.00	
Total material costs		$52.00 per canoe

Labour Costs.

24 hours x $2.00 per hour	$48.00 per canoe

Overhead Costs: ($300.00 per month)

Based on a production rate of 10 canoes per month	$30.00 per canoe
Total Production Costs	$130.00 per canoe

Therefore, each canoe would have to sell for more than $130.00 if the business is going to make a profit.

5. Referring to items listed on flip chart (point 3), classify items as to materials, labour, money, and management.

6. Read and discuss Section 2 of the Readings.

2. What is Included in Overhead Costs?

It is easy to add up material costs and labour costs (if you keep records), but it is harder to figure out what overhead costs for each product should be.

Overhead costs include:

your salary
interest
heat, lights, water, etc.
depreciation
maintenance
office supplies

These are costs that cannot easily be attached directly to any one product. They are general costs of doing business.

You can estimate what these costs will be over a certain production period (a month or year). Now, if you also estimate how many units of the product (for example, canoes) you can produce in this period, you will be able to figure out what the overhead cost for each unit should be. We call this the OVERHEAD RATE.

$$\text{Overhead cost for one unit} = \frac{\text{Total overhead costs this period}}{\text{Number of units of products produced this period.}}$$

Example:

$$\text{Overhead cost per canoe} = \frac{\$300.00 \text{ per month}}{10 \text{ canoes per month}}$$

Overhead cost per canoe = $30.00 per canoe

You can now use the overhead in calculating your total production costs. If you keep good records, you should have a good idea of what your overhead costs are.

7. Have students identify those items listed on the flip chart (point 3) which would be considered overhead cost.
8. Ask the students to name items that could affect the production costs of a production plant. List items on the flip chart and have students state how the items would affect the production cost.
9. Read and discuss Section 3 of the Readings.

3. What Things Affect Production Costs?

a. Factors That Affect Production Costs

You should know what factors cause high production costs, and what you can do to lower production costs.

Factor	Production Costs Will Usually Be Higher If:	Production Costs Will Usually Be lower If:
(1) Materials	- materials are poor quality - lots of scrap is produced - material cost is high	- materials are good quality - little scrap is produced - material cost is low

(2) Labour	- workers are careless and lazy - wage rates are high	- workers are careful and efficient - wage rates are low
(3) Equipment	- equipment is poorly maintained - wrong equipment is used for the job	- equipment is in good condition - correct equipment is used for the job
(4) Layout	- layout is awkward	- layout gives smooth flow of work
(5) Product Design	- product design is complex	- product design is simple
(6) Defective Products	- many defective products are produced	- few defective products are produced
(7) Amount Produced (output)	- small amount is produced	- large amount is produced

b. How Does Production Cost Change with Amount Produced?
In point 7 on the list we said if a small number of units is produced then production costs per unit will be higher than if a large number of units is produced.

To help explain how production costs change with the amount produced, we have to talk about Fixed Costs and Variable Costs. When you run a production plant, you will have both kinds of costs.

10. Ask students to define fixed costs in their own words.

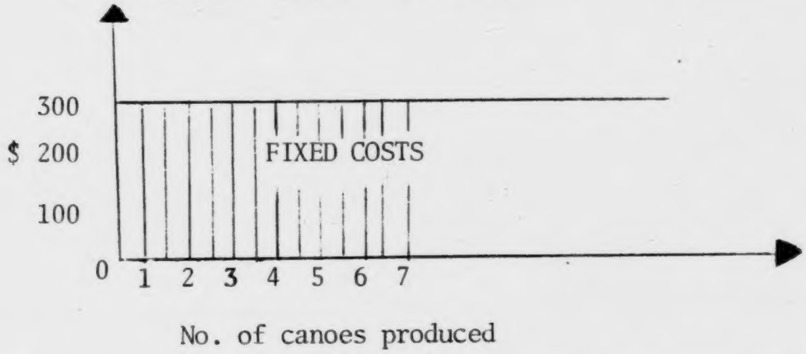
11. Read and discuss Section 4 of Readings.

4. Fixed Costs

These are costs that you have no matter how many units of a product you produce. For example, you will have to pay heat, electricity, rent, taxes (on property), depreciation and your own salary no matter how much your plant produces. These costs are fixed. You have to pay them if you want to run the business. Most overhead expenses are fixed. We can show fixed costs on a graph as shown.

PROD7

The canoe factory pays $300.00 per month in overhead.



12. Using Projectual PROD7 - 1, "Co-ordinate Graph", illustrate fixed costs.

13. Have students identify the items listed on flip chart (point 3) which would be considered fixed costs.
    Ask students to define variable costs in their own words.

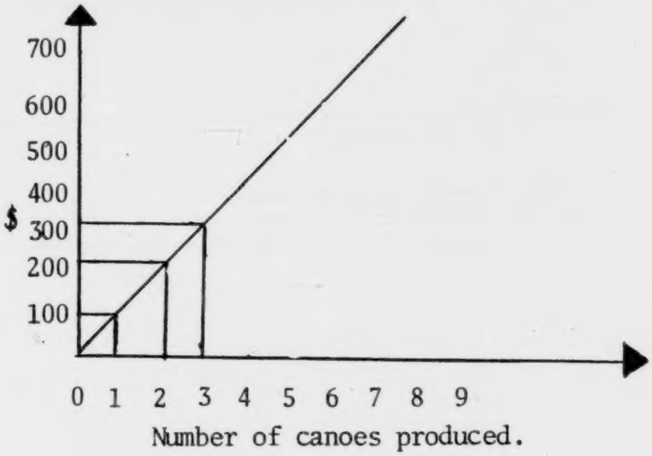
14. Read and discuss Section 5 of the Readings.

5. Variable Costs

These are costs that vary with the amount that you produce. For example, labour and material costs are variable costs.

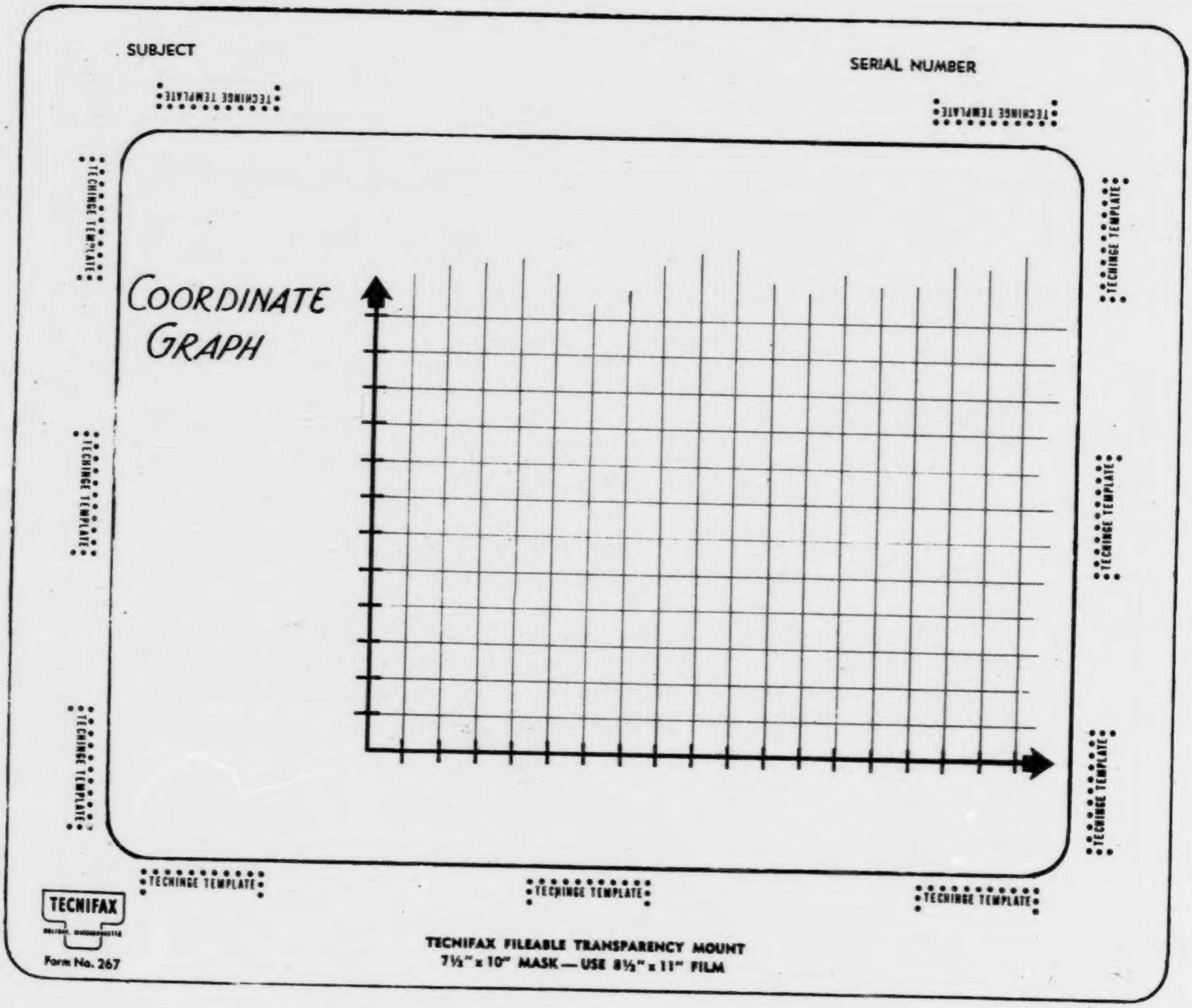
If you do not produce any products then you will have no expenses for labour (wages) and materials.

If you produce 5 canoes you will have to pay for labour and materials used to produce these canoes. The more units of a product you produce, the greater will be your variable costs. We show variable costs on a graph as below.



PROD7

PROD7-1 CO-ORDINATE GRAPH

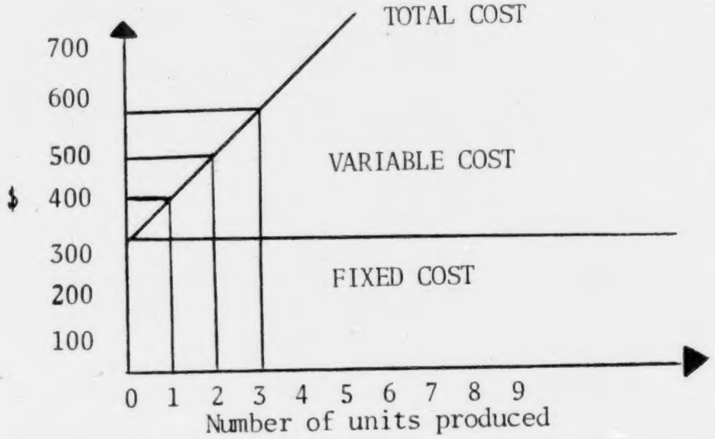

SUBJECT
SERIAL NUMBER
COORDINATE GRAPH
TECHINGE TEMPLATE
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

15. Using Projectual PROD7 - 1, "Co-ordianate Graph", illustrate variable costs.
Have students identify the items listed on flip chart (point 3) which would be considered variable costs.

16. Read Section 6 of the Readings and discuss.

6. Total Production Costs

By adding fixed costs and variable costs together, you get the total cost of production.



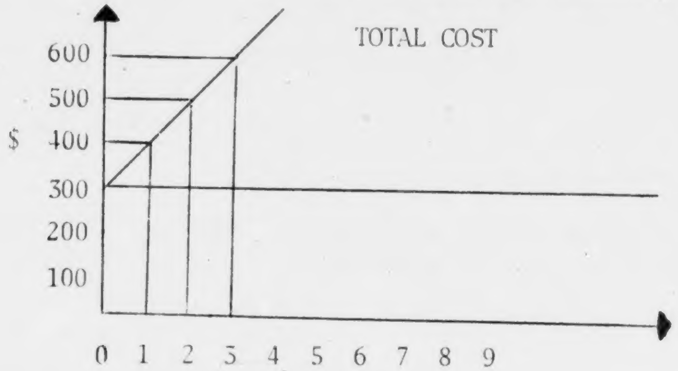
17. Using Projectual PROD7 - 1, "Co-ordinate Graph", illustrate how total production cost is calculated.

18. Ask students if it is true that an increase in production volume brings about a decrease in per unit cost. Have students defend their answer.

19. Read Section 7 of the Readings and discuss.

7. Increased Volume Decreases Per Unit Cost

You can now see that the larger the number of units you produce, the lower will be your production costs per unit.



Number of canoes produced

a. If you produce 2 canoes your total costs are $500.00. Therefore, your production cost per canoe is:

$$\frac{\$500.00}{2\text{ canoes}} = \$250.00 \text{ per canoe}$$

b. If you produce 4 canoes your total costs are $700.00. Therefore, your production cost per canoe is:

$$\frac{\$700.00}{4\text{ canoes}} = \$175.00 \text{ per canoe}$$

"The more you can produce the better". Do you agree? Do you know why production costs per unit are lower the more you produce? The reason is that you have more units to attach the fixed costs to. See below.

Suppose your costs for producing a canoe looked like this:

Variable Costs	Labour	$48.00 per canoe
	Materials	52.00 per canoe
Fixed Costs	$300.00 per month	

(1) If you produce 1 canoe a month you can figure your cost of the production per canoe as follows:

Labour cost per canoe	$ 48.00
Material cost per canoe	52.00
Fixed costs per canoe	300.00
Total cost per canoe	$400.00

(2) If you produce 10 canoes per month you can figure your cost of production per canoe as follows:

Labour cost per canoe	$ 48.00
Material cost per canoe	52.00
Fixed costs per canoe	30.00
Total cost per canoe	$130.00

You can see that spreading the fixed costs out over more units means lower production costs per unit.

20. Using Projectual PROD7 - 1, "Co-ordinate Graph", illustrate how increased volume brings about a decrease in per unit cost.

21. Read Section 8 of Readings and discuss.

8. Summary

Production costs are material costs, direct labour costs, and overhead costs. These three classes of costs are divided into fixed costs and variable costs.

Fixed costs remain the same no matter how many units of the the product are produced. Overhead costs are fixed costs.

Variable costs vary directly with the production volume. Material costs and direct labour costs are variable costs.

Total production cost is found by adding the total variable costs to the total fixed costs.

As volume increases, per unit cost generally decreases because fixed costs are shared by more units.

Indicator

22. Hand out the Case PROD7 - 1, "What Does It Cost To Make?" Read Case and have students complete and discuss the questions at the end of the case.

Answers to questions:

PROD7

1. Total Costs

		Moccasins	Muklucks	Other	Total
Variable	Labour	$4,650.00	$13,700.00	$1,829.00	$20,179.00
	Material	4,100.00	3,677.00	1,711.00	9.488.00
Fixed	Overhead	2,578.50	5,825.50	1,146.00	9,550.00
Total		$11,328.50	$23,202.50	$4,686.00	$39,217.00

Overhead Rate:

Moccasins	27%
Mukluks	61%
Other	12%
	100%

2. Per Unit Costs

	Moccasins	Mukluks	Other
No. of Unit Made	3,100	1,750	3,325
Variable Costs	$ 2.50	$ 9.92	$ 1.06
Fixed Costs	.83	3.32	.34
Per Unit Cost	$ 3.32	$ 13.24	$ 1.40

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD7 PRODUCTION COSTS

CASE PROD7 - 1

"WHAT DOES IT COST TO MAKE?"

Pine Bluff Handicraft Co-operative had been in business six months. In view of their limited financial means, and for other reasons, Jack McLeod decided that they should produce only the quantity which could be sold each month. Production would be based on the orders he was able to obtain, so that their resources wouldn't be tied up in inventories of finished products.

Most of the time was spent getting the business started; Jack didn't pay much attention to the matter of records and bookkeeping details. Even though they were producing and sending orders in accordance with the orders they received, no one was ever quite sure of how much money they made or lost each month. Jack soon realized that if they had figures as to exactly how much it was costing to operate the business, they would be in a better position to make decisions.

At this point Jack gathered all his records together and began to calculate the total costs and the total revenues for the six month period. He reviewed the totals for each month and found that in some months they had made money and in other months they had lost money. Jack figured out the costs and results according to the type of product made and sold. The products were moccasins, mukluks, headbands, lapel pins, and other small souvenirs.

PROD7

MOCCASINS

	JAN.	FEB.	MAR.	APR.	MAY	JUNE
Pairs Sold	200	300	250	500	900	950
Sold ($4.00 a Pair)	$ 800.00	$1200.00	$1000.00	$2000.00	$3600.00	$3800.00
Cost of Material	260.00	390.00	395.00	650.00	1170.00	1235.00
Cost of Labour	300.00	450.00	375.00	750.00	1350.00	1425.00

MUKLUKS

	JAN.	FEB.	MAR.	APR.	MAY	JUNE
Pairs Sold	400	375	375	200	175	225
Sold ($15.00 a Pair)	$6000.00	$5625.00	$5625.00	$3000.00	$2625.00	$3375.00
Cost of Material	840.00	788.00	788.00	420.00	368.00	473.00
Cost of Labour	2360.00	3150.00	3150.00	1680.00	1470.00	1890.00

OTHERS

	JAN.	FEB.	MAR.	APR.	MAY	JUNE
Items Sold	700	650	425	375	500	675
Sold ($1.50 per item)	$1050.00	$ 975.00	$ 638.00	$ 563.00	$ 750.00	$1013.00
Cost of Material	350.00	325.00	212.00	187.00	250.00	387.00
Cost of Labour	385.00	358.00	234.00	206.00	275.00	371.00

There were other costs that could not be directly related to any one item. Jack totalled these costs for the period. The results are shown below.

	JAN.	FEB.	MAR.	APR.	MAY	JUNE
Salaries for Staff	750.00	750.00	750.00	750.00	750.00	750.00
Salary - J. McLeod	375.00	375.00	375.00	375.00	375.00	375.00
Depreciation	75.00	75.00	75.00	75.00	75.00	75.00
Loan Payment	100.00	100.00	100.00	100.00	100.00	100.00
Taxes, licences	5.00	5.00	5.00	5.00	5.00	5.00
Travel	50.00	150.00	75.00	125.00	50.00	50.00
Heat, light and water	35.00	35.00	35.00	35.00	35.00	35.00
Insurance	25.00	25.00	25.00	25.00	25.00	25.00
Other	125.00	205.00	100.00	175.00	160.00	95.00
TOTAL	$1540.00	$1720.00	$1540.00	$1665.00	$1575.00	$1510.00

Jack decided to divide these other costs among the three products on the basis of the percentage each product contributed to total income over the six month period. By doing this he would get a clear picture of how much it cost to make and sell each product.

Questions for Discussion

1. What were the total costs for each of the three products carried for the six month period?
2. What was the per unit cost for each of the three products for the six month period?

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD8 BREAK-EVEN ANALYSIS

INSTRUCTOR'S GUIDE

OVERVIEW

Two of the major functions of management are planning and controlling. There are many techniques available for management to use in performing these two functions. One of the most useful is break-even analysis.

The main objective of break-even analysis is to determine how many units of product a plant will have to produce and sell in order to break-even, which is the point where there is no profit or loss -- all costs of production are covered by the revenues earned by sales.

Break-even analysis is used as a planning tool; by determining the costs of production of present production methods or of possible changes in production methods, management is able to determine what volume of production it must produce in order to meet the costs involved. Management is also able to plan changes and their accompanying costs, and then evaluate how the planned changes will affect the plant's profitability. Changes which could be evaluated are:

1. Volume sold
2. Labour costs
3. Material usage and material costs
4. Fixed costs
    a. new equipment
    b. additional staff
    c. additional production facilities
5. Selling price.

Break-even analysis is used as a control device: management is able to determine whether or not present production methods are producing enough units to allow the plant to break-even. Management is also able to gauge at what minimum levels it can afford to operate and still cover all production costs.

The lesson shows the student how to algebraically determine the break-even point using production costs. The formula used is:

$$\text{break-even} = \frac{\text{fixed costs}}{\text{selling price per unit} - \text{variable cost per unit}}$$

$$X = \frac{F}{P - V}$$

X = break-even point
F = total fixed costs
P = selling price per unit
V = variable cost per unit

After algebraically determining the break-even point, the student is shown how to plot and use break-even charts.

The case used in this lesson requires that the student determine various break-even points in order to evaluate present production methods, and to plan and evaluate contemplated changes in production methods and facilities. He is asked to recommend which, if any, of the planned changes the plant should put into affect in order to better its profit picture. In order to back up his recommendations, the student will be required to have a good knowledge of the material in the Production Management subject area to date.

This lesson and the previous lesson on Production Costs lead directly to the next Production Management lesson in Planning and Scheduling Production. In order to effectively plan and schedule, a plant manager must be aware of his production costs and at what level he must produce in order to break-even.

OBJECTIVE

Using given information, the student will calculate the break-even point for various alternative production plans, and plot break-even charts to aid in evaluating these production plans.

REFERENCE MATERIAL FOR THE INSTRUCTOR

1. Fleck, J.S. "Figuring and Using Break-Even Points", Management Aids for Small Business, Annual No. 2. Washington, D.C.: Small Business Administration, 1956, pp. 49-56.

RESOURCES REQUIRED

1. Case PROD7-1, "What Does it Cost to Make"
2. Case PROD8-1, "Break-Even Production"
3. Projectual PROD7-1, "Co-ordinate Graph".
4. Graph paper.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and the Introduction.

PURPOSE

In this lesson you will be shown how to calculate and use break-even analysis as a decision-making technique.

INTRODUCTION

In managing a production business, you will be faced with questions like the following.

1. How much of the product must you sell in order to cover your present production costs?
2. What will happen if you change equipment?
3. What will happen if you hire more employees?
4. What type of machinery should you use?

OBJECTIVE: USING GIVEN INFORMATION, THE STUDENT WILL CALCULATE THE BREAK-EVEN POINT FOR VARIOUS ALTERNATIVE PRODUCTION PLANS AND PLOT BREAK-EVEN CHARTS TO AID IN EVALUATING THESE PRODUCTION PLANS.

Stimulus

2. Write the words "Break-even Analysis" on the flip chart. Ask the students to define this term in their own words. Add the definitions to the flip chart.

Clarify Problem

3. Have the students clarify their definitions. If no definitions were volunteered, ask the students what they think the words "break-even" and "analysis" mean. After receiving some meanings for these words, the instructor should rephrase these meanings to come up with a definition of break-even analysis. One definition could be: break-even analysis is analysis of a business to determine that point where the costs of production are equal to the total revenues received from sales of the units produced.

Provide Information

4. Read section 1 of the Readings.

CONTENT

1. What is Break-even Analysis?

As the name implies, the main objective of break-even analysis is to determine how many units of product a plant will have to produce and sell in order to break-even. When we say break-even, we mean that there is no profit and no loss. (Revenues equal costs).

Therefore, break-even analysis means finding out how many units have to be produced and sold so that there is no profit and no loss. This is important because this is the minimum amount of production and sales at which you can cover your costs of production.

Compare the definition on flip chart with the one stated in Section 1.

5. Ask the students how they would calculate the break-even point. If necessary give some figures they could use.

Selling price	\$ 10.00 per unit.
Fixed cost	\$100.00
Variable cost	\$ 5.00 per unit.

Answer:

$$\text{Break-even point} = \frac{\$100.00}{\$10.00 - \$5.00} = 20 \text{ units.}$$

6. Read section 2 of the Readings. Discuss and clarify.

2. The Break-even Point

The "break-even point" is defined as the level of sales at which the total profit and loss is zero. If costs are considered to consist only of a fixed cost which does not vary with the level of production and of a constant cost for production of each unit, usually called variable cost, the total cost of production may be expressed as:

Total Production Cost = Fixed Cost + (Variable Cost x Number of Units Produced.)

Profit is defined as total revenue minus total production cost where total revenue is sales price per unit multiplied by the number of units sold.

Since the break-even point is where profit and loss is zero, the break-even point is that level of production and sales where total revenues equals total production cost.

Total Revenues = Total Production Cost

or

Sales Price per Unit x Number of Units Sold = Fixed Cost + (Variable Cost x Number of Units Produced.)

Letting F be the fixed cost, V the variable cost, P the sales price per unit and x the number of units produced and sold, the break-even point is:

$$\boxed{X = \frac{F}{P - V}}$$

$$\text{Break-even Point} = \frac{\text{Fixed Costs}}{\text{Selling Price per Unit} - \text{Variable Cost per Unit}}$$

$$X = \frac{F}{P - V}$$

Let's use an example to see if this really works.

Example

Suppose you were the manager of a canoe factory and wanted to find out how many canoes you had to produce and sell if you wanted to break even.

Your costs of production are as follows:

Material for 1 Canoe

boards	$40.00
canvas	6.00
screws	2.00
glue	2.00
paint	2.00

Total material cost $ 52.00

Labour for 1 Canoe

24 hrs. x $2.00 per hr. = 48.00

Overhead for the Month = 300.00

Selling Price for 1 Canoe = 150.00

Thus: $F = \$300.00$

$V = \$52.00 + \$48.00 = \$100.00/\text{canoe}$

$P = \$150.00/\text{canoe}$

$X =$ is the break-even point

$$X = \frac{F}{P - V}$$

$$X = \frac{\$300.00}{\$150.00 - \$100.00}$$

$$X = \frac{\$300.00}{\$50.00}$$

$X = 6$ canoes

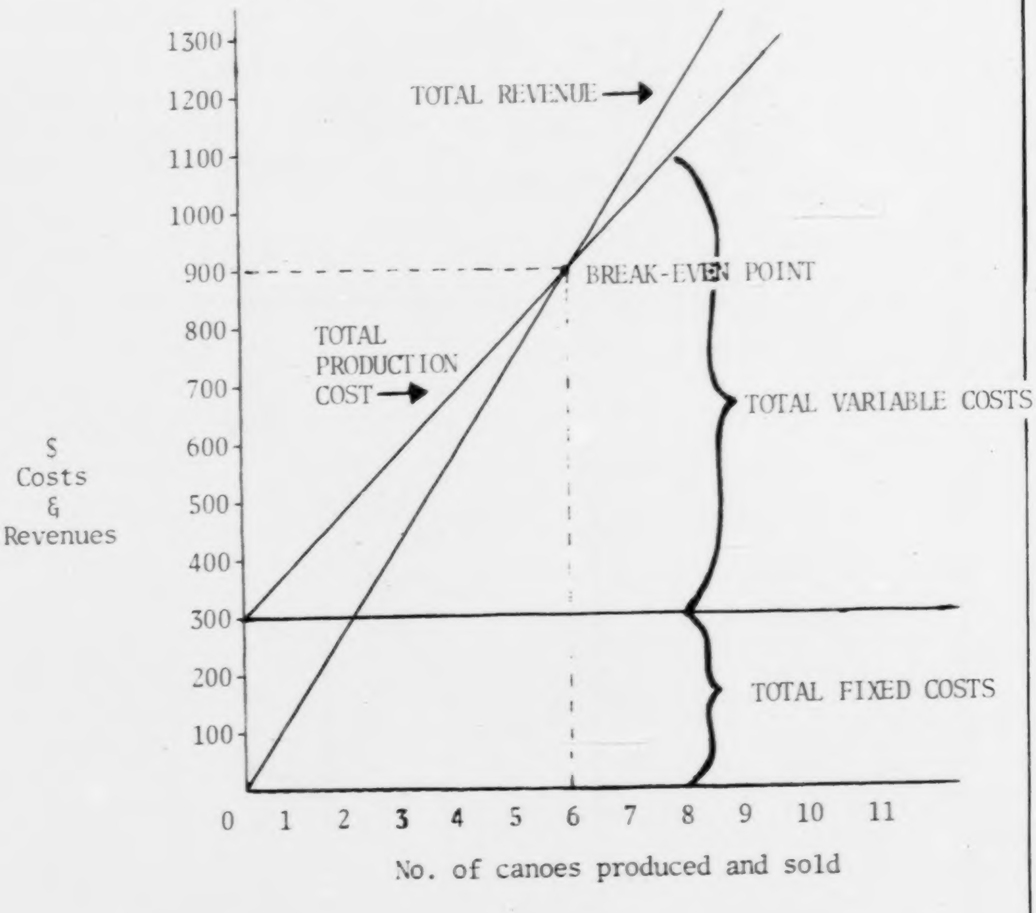
Therefore, to break-even you must produce 6 canoes.

7. Show Projectual PROD7-1, "Co-ordinate Graph", and explain its usage in plotting information.

8. Read section 3, part a. and part b.(1).

3. The Break-even Chart

a. Many times a chart will be used to show how production and sales will affect your profit picture. This chart is called a "break-even chart". A chart for the previous example would look like the following:



b. Plotting the Break-even Chart
Units of volume are plotted on the horizontal scale, dollars of sales or cost on the vertical scale.

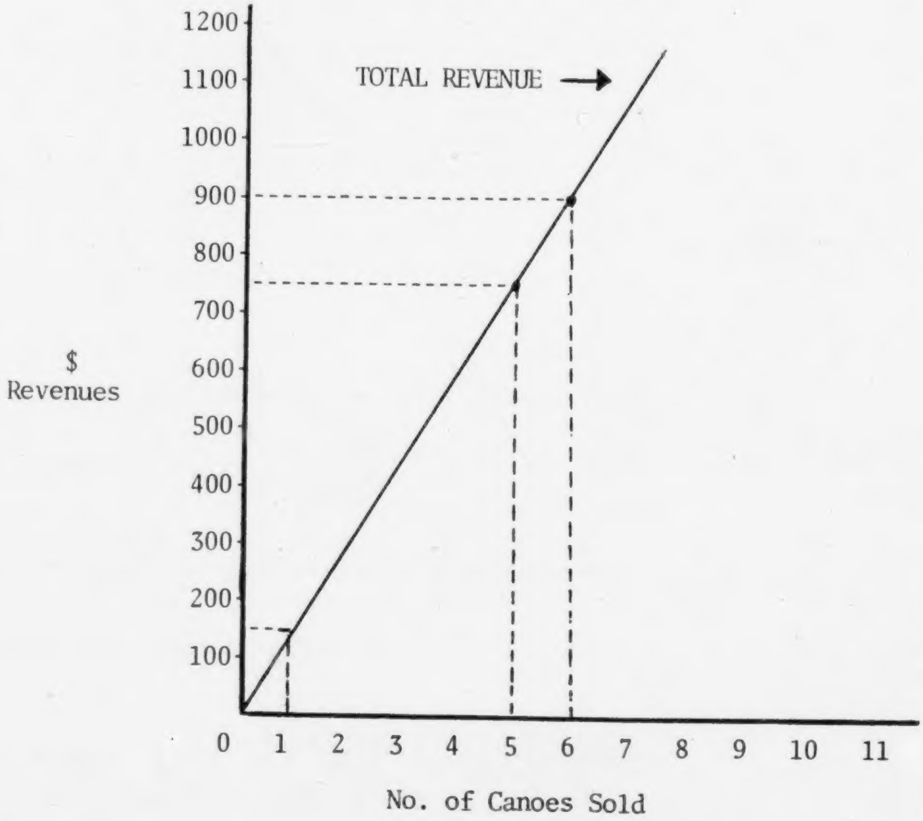
(1) The Total Revenue Line (Sales Line)

(a) The total revenue or sales line begins at the origin, because if you do not sell any of the product you do not have any revenue.

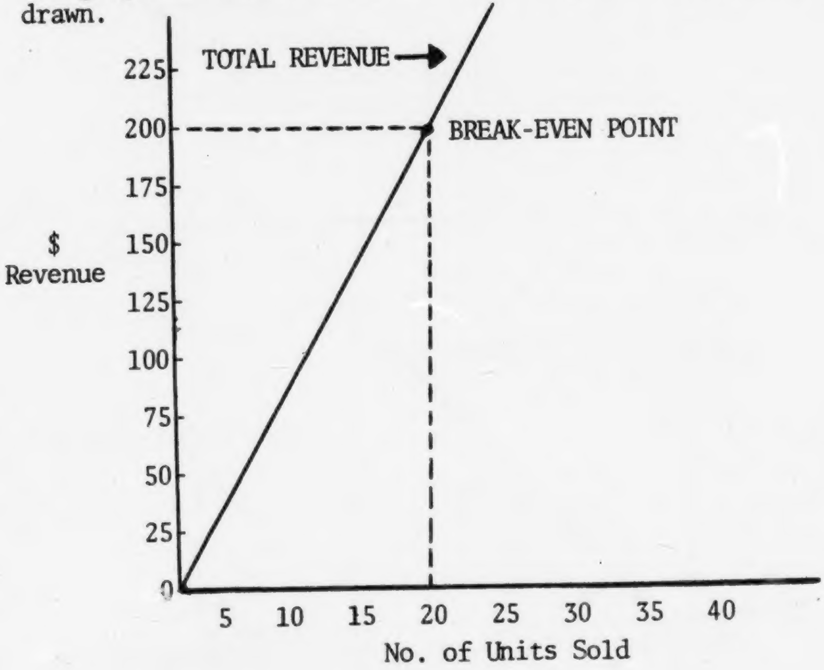
(b) To plot the next point, simply go along the horizontal scale to the number of units sold; then go up from this number to a point directly across from the amount of revenue received from selling that number of units.

(c) Draw a straight line connecting the origin and the point found above.

For example, we were given that 1 canoe sold for \$150.00. Therefore, if you sold 5 canoes you would receive 5 x \$150.00 = \$750.00. If you sold 6 canoes you would receive 6 x \$150.00 = \$900.00. If you sold zero canoes you would receive \$0.00. After joining the points you would have a graph like the following:



9. Show how the graph in section 3, part b. (1) is drawn. Show how graph of revenue line for the example in point 5. above is drawn.



10. State that the next item that must be calculated is the total production costs. Ask how this is done and how it is charted. (This was covered in PROD7, "Production Costs"). Have one of the students illustrate, using the information from the example in point 5.

If no one can illustrate, proceed to Readings Section 3, part b. (2).

If a student illustrates how the total production cost line is drawn, discuss, then proceed to Readings Section 3, part b. (2).

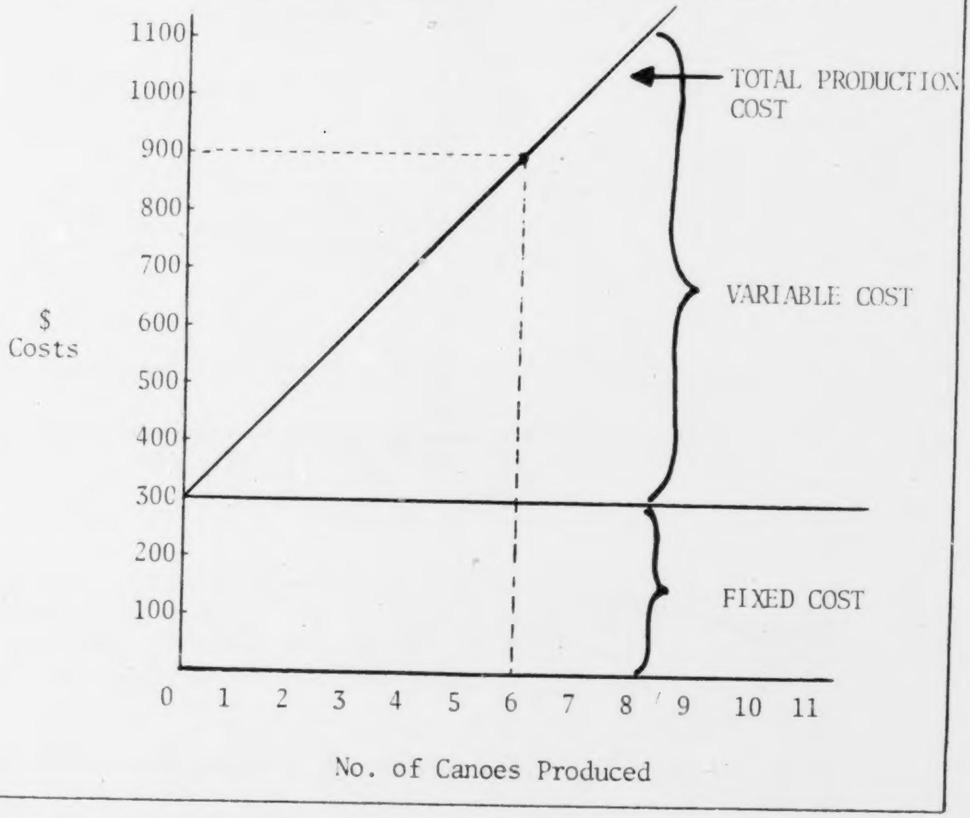
11. Read Section 3, part b. (2) and discuss.

(2) The Total Production Cost Line
In the example (given at the beginning of the lesson), your fixed cost will always be $300.00 no matter how many canoes you produce. Your variable cost will be $100.00 per canoe. From this information you can plot your total production cost line. This line shows the total cost

PROD8

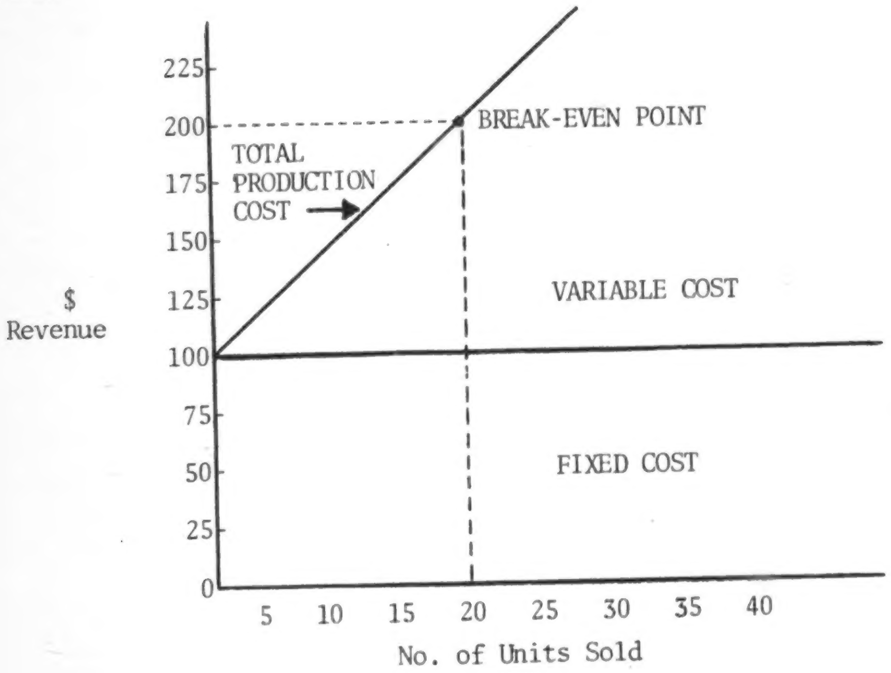
(variable plus fixed) for producing any number of canoes.

For example, suppose you produced 6 canoes. Your fixed cost would be $300.00. Your variable cost would be 6 x $100.00 = $600.00. Your total production costs would therefore be $900.00.



Illustrate the drawing of the total production cost line by drawing the line for the example in the Readings on the Projectual PROD7-1, "Co-ordinate Graph".

12. Illustrate further by drawing total production cost line for example in point 5.



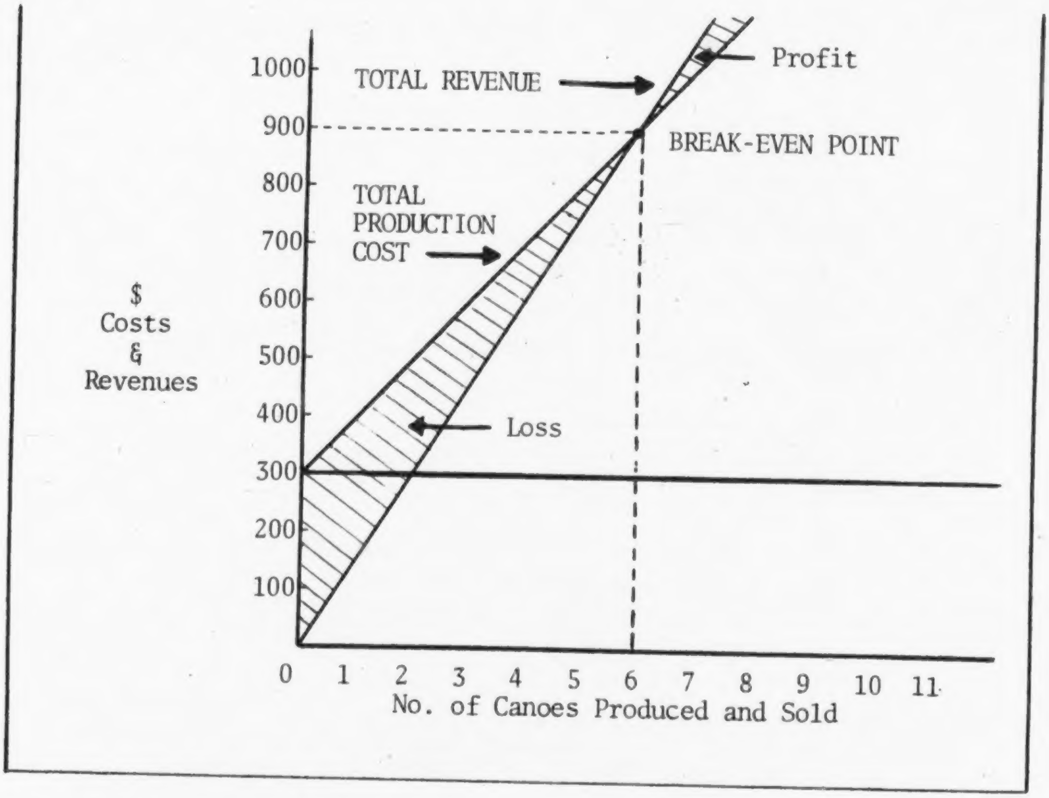
Ask how the break-even point would be found. The total revenue line and the total production cost line would be drawn on the same chart; the break-even point is where the two lines intersect.

Have one of the students illustrate this by using the data from the example in the Readings.

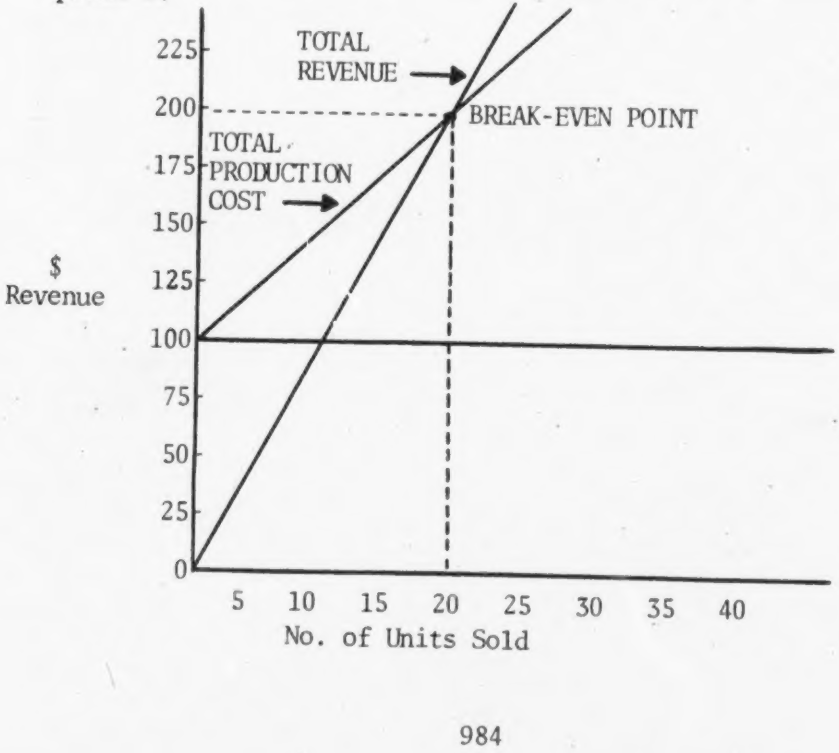
13. Read Section 3, part b. (3).

(3) Put the total revenue line and the total production cost line on the same chart.

PROD8



14. Illustrate further by drawing break-even chart for example in point 5.



Ask how these break-even charts are read.

a. Break-even point. Readings example: 6 canoes
Instructor's Guide example: 20 units

b. Production and sales below break-even point results in losses.

c. Production and sales above break-even point results in profits.

15. Read Section 3, part c.

c. Reading the Break-even Chart

(1) The point where the total revenue line and the total production cost line cross each other is the break-even point. At this point you can see that the total revenues equal the total production costs.

(2) If you produce and sell less units than the number required to break-even, you will take a loss. You can easily see that any number of sales less than the break-even number will result in total production costs being higher than total revenues.

(a) If you did not produce any canoes, you would not bring in any revenue, but since your fixed cost would be $300.00, you would suffer a $300.00 loss.

(b) If you produced 1 canoe you would bring in $150.00 revenue, but your total production costs would be $300.00 (fixed costs) + $100.00 (variable costs) = $400.00; so you would suffer a $400.00 - $150.00 = $250.00 loss.

(c) As you produce more units, your losses would become progressively smaller until you reached the break-even point (which is 6 canoes) where your loss would be zero.

The loss is shown by the shaded area on the chart.

(3) If you produce and sell more units than the required break-even, you will make a profit. You can easily see that any number of sales above the break-even number will result in total revenues being higher than total production costs.

(a) When you produce 6 canoes your profit will be zero because your total revenue will be $150.00 x 6 = $900.00 and your total costs will be $300.00 (fixed costs) + $600.00 (variable costs) = $900.00.

(b) When you produce 7 canoes your total revenue will be $150.00 x 7 = $1,050 and your total cost will be $300.00 (fixed costs) + $700.00 (variable costs) = $1,000.00, so your profit will be $50.00.

(c) As you produce more canoes, your profit will become progressively larger.

The profit is shown by the shaded area on the chart.

16. Ask the students how break-even analysis can be used in business operations and management. List answers on flip chart and discuss.

17. Read Section 4 of the Readings and discuss.

4. Using Break-even Analysis

Break-even analysis is very useful to the businessman. By using it he can see how changes he is planning will effect his profit picture.

Changes That Affect Break-even Points and/or Profits

a. Change in Volume Sold

(1) This has a direct affect on profits:

(a) If more is sold, more profits are made
(b) If less is sold, less profit is made
Break-even point does not change.

b. Change in Labour Costs

(1) If labour costs increase, the break-even point increases and profits decrease.

(2) If labour costs decrease, the break-even point decreases and profits increase.

c. Change in Material Costs or Material Usage

(1) If material costs increase, the break-even point increases and profits decrease.

(2) If material costs decrease, the break-even point decreases and profits increase.

(3) If you use more material, the break-even point increases and profits decrease.

(4) If you use less material, the break-even point decreases and profits increase.

d. Change in Fixed Costs

(1) If you increase fixed costs, the break-even point increases and profits decrease.

(2) If you decrease fixed costs, the break-even point decreases and profits increase.

e. Change in Selling Price

(1) If you increase selling price, the break-even point decreases and the profits increase.

(2) If you decrease selling price, the break-even point increases and the profits decrease.

18. Using the projectual PROD7-1, "Co-ordinate Graph", illustrate the points contained in Section 4 of Readings.

19. Read Section 5 of Readings.

5. Summary

Break-even analysis provides important information for production businesses. It is well to realize that the break-even point is not exact because of the difficulty of collecting exact data on fixed and variable costs as well as the fact that day-to-day managerial decisions are constantly changing the break-even point. Even so, break-even analysis is important because it will show you the probable result of your decisions and will also allow you to evaluate various alternative solutions to your business problems.

PROD8

Indicator

20. Hand out Case PROD8-1. Information for this case is also contained in Case PROD7-1. Read the case and then instruct the students to answer the questions at the end of the case. Discuss questions and answers.

Answers to Questions

1. Break-even:

Mukluks:	1,316 pairs
Moccasins:	2,070 pairs
Other:	2,480 units

2. Break-even:

Mukluks:	1,013 pairs
Moccasins:	1,314 pairs
Other:	1,283 units

SUBJECT PRODUCTION MANAGEMENT

LESSON PROD8 BREAK-EVEN ANALYSIS

CASE PROD8 - 1

BREAK-EVEN PRODUCTION

Jack McLeod had just calculated the costs of production for each of the three types of products the Pine Bluff Handicrafts Co-operative made and sold (Case PROD7). He now wanted to find out how much of each product he would have to sell in order to break-even if they continued to sell the products at the same price. He also wanted to see what sales volume he would need if he raised the price on the items as follows:

1. Mukluks by 15%
2. Moccasins by 25%
3. Other by 33 1/3%

If he raised the prices by these amounts he knew that he would need better quality materials so he expected material costs to rise by 10%. He also expected the labour costs for completing the kits to rise by 5%.

Questions for Discussion

1. What is the break-even volume for each product under the present costs and selling price?

   Calculate the volumes, then plot the information on graphs.

2. What is the break-even volume for each product if Jack were to use the new prices and their accompanying costs.

   Determine the break-even sales volume for each item by using a break-even chart.

SUBJECT MARKETING

LESSON MKT8 SETTING PRICES

INSTRUCTOR'S GUIDE

OVERVIEW

The students have discussed pricing briefly in previous lessons; this lesson considers in more detail the mechanics of setting prices.

Some students of Indian ancestry may perhaps feel that prices should be set low to help their people. These students should be cautioned that if they take on the job of providing welfare, they will not be in business very long. A businessman renders a service to the community and in so doing, is entitled to a profit which must cover all expenses, payments, a living wage, an allowance for depreciation as well as a reserve for uncertainty. A business which is weak and shaky is in a poor position to be of real service to a community.

OBJECTIVES

1. The students will learn the different meanings which the term 'price' has for a buyer and a seller.
2. The students will learn the four factors commonly used as guides in setting prices.
3. Given the wholesale or production cost of goods and a desired percentage gross profit on sales, the students will calculate the selling price.
4. The students will know the meaning of the term 'shrinkage' and how it can be reduced.

MKT8

REFERENCE MATERIAL FOR INSTRUCTOR

1. Steinmetz, Lawrence et al. Managing the Small Business. Georgetown, Ontario: Irwin-Dorsey Ltd., 1968, ch. 23.
2. Kelley, Pearce C. et al. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968, ch. 7.
3. Richert, G. H. et al. Retailing Principles and Practices. Toronto: McGraw-Hill Company of Canada Ltd., 1968, Unit 13.

RESOURCES REQUIRED

1. Case MKT8-1, "Louis' Rifle"
2. Projectual FAB9-4, "Standard Form of a Profit and Loss Statement"
3. Profit calculator, obtainable from a wholesaler. The profit calculator consists of two rotating discs which provide a method of finding retail price for various percentages of profit based on either retail or cost.
4. Filmstrip, "Get On the Ball, Stop Shrinkage"
5. Film, "Shoplifting"
6. Flip chart.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to show you the different meanings of price, some of the basic ways of setting prices, and how to do the actual pricing of the goods you will be selling to your customers.

INTRODUCTION

Many small businessmen get into trouble because they are not aware that the selling price of any item is made up of three parts; merchandise or supply costs, operating expenses, and a planned profit. Setting the selling price of your goods or services is a very important part of your job as manager. How can you be sure that the prices you set are fair to customers and at the same time give you a reasonable profit? This lesson examines some of the factors involved in answering this question.

OBJECTIVE: THE STUDENTS WILL LEARN THE DIFFERENT MEANINGS WHICH THE TERM 'PRICE' HAS FOR A BUYER AND A SELLER.

Stimulus

2. Hand out Case MKT8-1, "Louis' Rifle", and go over with the group.

Clarify Problem

3. Discuss the case, emphasizing the meaning of price to the customer and to the seller. Discuss the questions at the end of the case.

   Possible answers to the case questions:

   a. Price to Louis means the value of the rifle to him. If he did not already have a rifle, he might value the new one higher than $90.00.

   b. Price to Jack Nolan means the amount of money he needs to cover the cost price of the rifle, his operating expenses and a reasonable profit for himself. If he sells the rifle to Louis for less than $120.00, his desired profit figure will go down.

   c. If the price is too high, Jack Nolan will probably have difficulty selling it, and he may have to 'mark down' the price.

Provide Information

4. Read and discuss Section 1 of the Readings.

CONTENT

1. What Does Price Mean?

Price means the 'value' of the product or service which is offered for sale. This value is most often expressed in dollars and cents.

Price does not have exactly the same meaning to your customers as it does to you.

To Your Customers	To You (Manager)
a. dollars and cents	a. dollars and cents
b. the "value" of the article	b. money to pay the supplier for the article sold
c. the amount of work he must do to pay the price of the article	c. money for the business operating expenses e.g., heat, lights
d. the other things he must "give up" in order to buy this article	d. money to provide yourself a reasonable income (which comes out of the profit)

Indicator

5. Group discussion.

OBJECTIVE 2: THE STUDENTS WILL LEARN THE FOUR FACTORS COMMONLY USED AS GUIDES IN SETTING PRICES.

Stimulus

1. Ask the students: "If you were Jack Nolan, the store owner, how would you be sure that $120.00 was a fair price for the rifle?"

Clarify Problem

2. Discuss the question and have one of the students list the groups' suggestions on the flip chart. Encourage the group to suggest a

reasonable cost price for the rifle and then list the various costs they think should be considered in arriving at a fair retail price.

Provide Information

3. Read and discuss Section 2 of the Readings.

2. Different Ways To Set Prices

Finding the best price is not easy. Your price should neither be too high nor too low.

The following are factors you should consider when setting your prices.

a. Cost of Goods

(1) The purchase cost of goods refers to the price a retail store would pay to a manufacturer or supplier for goods for resale to its customers. You must set a price high enough so that you can get back the money you have paid out for the goods, plus your store's operating expenses, and a reasonable profit.

PRICE = PURCHASE + OPERATING EXPENSES + PROFIT

(2) The production cost of goods refers to the costs of labour, supplies and other things that are used to make a product. You should always set your selling price higher than your production costs because you need to draw a profit.

SELLING PRICE = PRODUCTION COSTS + PROFIT

(You have learned how to calculate these production costs in the previous Production Management lesson.)

b. Suppliers Suggested Retail Price

Many suppliers suggest the price at which they feel their goods should be sold. Many businessmen use this "suggested price" as a guide when setting their retail prices because they feel that the supplier has more knowledge of what people are willing to pay for the goods.

c. Competitor's Prices
Most businessmen watch their competitors to see what prices they charge for similar goods or services. It is usually very difficult to sell goods at a higher price than your competition unless you offer a special service to your customers.

d. Market Demand
Some businessmen set their price as high as their customers will pay. This can usually only be done in the case of a new product or service that is in short supply and where there is a strong market demand for it.

4. Suggest that the students compare prices in several local businesses as an exercise. Ask them to look for differences in prices of similar items between stores and to try to explain why any differences exist.

Indicator

5. Ask the students to explain in their own words each of the four factors which may be used to set prices, and to explain when each factor might be used as a guide.

OBJECTIVE 3: GIVEN THE WHOLESALE OR PRODUCTION COST OF GOODS AND THE DESIRED PERCENTAGE GROSS PROFIT ON SALES, THE STUDENTS WILL CALCULATE THE SELLING PRICE.

Stimulus

1. Show Projectual FAB9-4, "Standard Form Of a Profit and Loss Statement".

Clarify Problem

2. Discuss the projectual. Ask the students to explain, in their own words, the meaning of the terms in the Profit and Loss Statement (left side of projectual) and where possible give examples.

Provide Information

3. Read and discuss Section 3 of the Readings.

3. Pricing for Resale

In order to determine a reasonable selling price for your goods or services you have to consider the following things:

a. Actual Cost of Goods
The "cost of goods" is the first basic factor to consider when establishing a selling price on an article. This includes any cost involved to get the article to the store e.g., freight.

COST OF GOODS SOLD = PURCHASE COST + FREIGHT

b. Operating Expenses
This refers to the costs of operating a business. It includes such costs as rent, heat, light, wages, insurance, and advertising expenses.

For example: If an article costs you 60 cents from the supplier, and an amount of 35 cents per article is needed to pay your operating expenses, then a retail price of 95 cents must be set so that you can break even. You would have to sell it for more than 95 cents if you wanted to make a profit.

c. Profit
When establishing a selling price, a reasonable amount of money is added to the cost of goods and the amount needed to pay the operating expenses. From the example given in b you may decide that 5 cents is a reasonable profit. Then your retail price will be 95 cents + 5 cents = $1.00 per article.

4. Give the students the following problems (write the information on the flip chart):

a. Find the retail price in each of the following:

Cost of Goods	Operating Expenses	Desired Profit	Retail Price
$ 360.00	$180.00	$ 66.00	________
1,500.00	450.00	133.00	________
650.00	300.00	112.00	________
2,300.00	900.00	22.00	________
1,800.00	600.00	28.00	________

b. What is the profit or loss in each of the following:

Retail Price	Cost of Goods	Operating Expenses	Profit	Loss
$2.00	$1.74	$0.36	______	______
0.87	0.62	0.11	______	______
6.99	3.80	2.19	______	______
0.69	0.46	0.28	______	______
0.37	0.24	0.03	______	______

5. Read and discuss Sections 4 and 5 of the Readings. Provide students with additional examples and exercises, if required.

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4. What is "Markup"?

"Markup" is the amount of money that is added to the cost of goods when setting a selling price. The markup on an article should include enough money to cover your operating expenses plus the desired amount of profit. The pricing formula is:

RETAIL PRICE = COST OF GOODS + MARKUP

For example: If the cost of goods is 60 cents and the required markup is 40 cents, what is the retail price?

SELLING PRICE = COST + MARKUP

$.60 + .40 = $1.00. Retail price is $1.00

a. Markup Expressed as a Per Cent

A retail price is determined by adding enough money to the cost of goods to cover operating expenses and profit. The term 'markup' is used to describe whatever money is added to the cost of goods to get a retail price.

Once you have found the markup in dollars and cents, you can calculate the markup in per cent. You can use this markup per cent to help you set your selling price.

There are two ways to find the markup per cent on merchandise.

(1) Markup Percentage Based on Cost of Goods

In the example where the cost of goods was 60 cents and the markup was 40 cents, the markup figure could be expressed as 66 2/3% of the cost of goods.

Retail Price = Cost + Markup

.60 + .40 = $1.00

Markup as a per cent of cost of goods

$$= \frac{\text{Dollar markup}}{\text{Dollar cost}}$$

$$= \frac{.40}{.60} \times 100$$

$$= \underline{\underline{66\ 2/3\ \%}}$$

b. Markup Percentage Based on the Retail Price

In the example above where the cost of goods was 60 cents and the markup was 40 cents, the markup figure could be expressed as 40% of the retail price.

Retail price = Cost + Markup

$.60 + .40 = $1.00

$$\text{Markup as a percentage of retail price} = \frac{\text{Dollar markup}}{\text{Dollar retail price}}$$

$$= \frac{.40}{1.00} \times 100$$

$$= \underline{\underline{40\%}}$$

You will see by these examples that the markup percentage based on cost is much higher (66 2/3%) than the markup percentage based on retail price (40%). If you base your markup percentage on cost of goods it is very important that you understand why your percentage of gross profit on your Profit and Loss Statement will be lower.

The following "Markup Table" shows how various markup per cents would be expressed. It will help you to price your goods so that you will have the gross profit you need to cover operating expenses as well as a reasonable net profit for yourself.

Markup as a % of Retail Price	Markup as a % of Cost	Markup as a % of Retail Price	Markup as a % of Cost
10.0%	11.1%	33.3	50.0
15.0	17.7	34.0	51.5
20.0	25.0	35.0	53.9
21.0	26.6	35.5	55.0
22.0	28.2	36.0	56.3
22.5	29.0	37.0	58.8
23.0	29.9	37.5	60.0
23.1	30.0	38.0	61.3
24.0	31.6	39.0	64.0
25.0	33.3	39.5	65.5
26.0	35.0	40.0	66.6
27.0	37.0	41.0	70.0
27.3	37.5	42.0	72.4
28.0	39.0	42.8	75.0
28.5	40.0	44.4	80.0
29.0	40.9	46.1	85.0
30.0	42.9	47.5	90.0
31.0	45.0	48.7	95.0
32.0	47.1	50.0	100.00

5. How to Use the Markup Table

a. Problem 1

If shirts cost you \$3.00 each and you want a gross profit of 33.3% on sales; what would your selling price be?

Solution

(1) You know the cost of goods is \$3.00

(2) Find the required gross profit figure (33.3%) in the left hand column of the table under MARKUP AS PER CENT OF RETAIL PRICE.

(3) Find the corresponding figure opposite 33.3% in the right hand column of the table under MARKUP AS PER CENT OF COST. (50%)

(4) Multiply the cost of goods (\$3.00) by the corresponding figure (50%) to get the dollar and cent markup on cost. $\$300 \text{ x } \frac{50}{100} = \$1.50$

(5) Add the markup on cost result ($1.50) to the cost of goods ($3.00) to get the selling price.
$1.50 + $3.00 = $4.50 (selling price)

The Effect of Markup on the Profit and Loss Statement

Suppose you sold 100 shirts during the year, then your Profit and Loss Statement would look like this:

Sales (100 shirts x $4.50)	$450.00
Less: Cost of Goods (100 shirts x $3.00)	300.00
Gross Profit	$150.00

$$\text{Gross Profit as per cent of sales} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$$

$$= \frac{\$150.00}{450.00} \times 100\%$$

$$= \underline{\underline{33.3\%}}$$

This (33.3%) is the same as the gross profit figure on sales you wanted earlier. This example shows that a 50% markup on cost of goods results in a 33.3% gross profit figure on your Profit and Loss Statement. This is because gross profit is calculated as a percentage of the retail price.

b. Problem 2

If it costs you $150.00 to make a canoe and you want a gross profit of 40% on sales, what would your selling price be?

Solution

(1) You know the cost of producing the canoe is $150.00

(2) Find the required gross profit figure (40%) in the left hand column of the table under MARKUP AS PER CENT OF RETAIL PRICE.

(3) Find the corresponding figure opposite (40%) in the right hand column of the table under MARKUP AS PER CENT OF COST, (66.6%)

(4) Multiply the cost of goods ($150.00) by the corresponding figure (66.6%) to get the dollar and cent markup on cost. $\$150.00 \times \frac{66.6}{100} = \$99.90$

(5) Add the markup on cost (99.90) to the cost of producing the goods ($150.00) to get the selling price. $99.90 + $150.00 = $249.90

The Effect of Markup on the Profit and Loss Statement

Suppose you sold 100 canoes during the year. Your Profit and Loss Statement would look like this:

Sales (100 canoes x $249.90)	$24,990.00
Less: Cost of Production (100 canoes x $150.00)	15,000.00
Gross Profit	$ 9,990.00

$$\text{Gross Profit as a per cent of sales} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$$

$$= \frac{\$9{,}990.00 \times 100\%}{\$24{,}990.00}$$

$$= 40\%$$

This is the gross profit figure you wanted to get on your Profit and Loss Statement.

This example shows that a 66.6% markup on the cost of producing a canoe will result in a 40% profit figure on your Profit and Loss Statement.

6. Present the following problems on per cent markup to the students?

   a. If a loaf of bread costs you 25 cents, and you want a gross profit of 25%, what would your retail price be?

   b. If it costs you $30.00 to make a moosehide jacket and you want a 50% profit on sales, how much would you sell the jacket for?

   c. If it costs you $75.00 for a rifle and you sell it at a retail price of $100.00, what would your gross profit be?

7. Give students the profit calculator and show them how they can save time in calculating the retail price of merchandise. Give the students the following exercises to solve with the profit calculator.

   a. It costs you $15.00 for labour, $5.00 for materials and $5.00 for expenses to make a pair of snowshoes. If you want to make a 28% gross profit on sales, how much should you charge for a pair of snowshoes?

b. Find the retail price of the following goods:

Cost Price	Markup on Selling Price	Retail Price
$ 700.00	30%	________
962.00	25%	________
3,000.00	40%	________
9.95	30%	________
3.98	38%	________
1.79	20%	________

Indicator

8. Students ability to do the problems provided will serve as an indicator.

OBJECTIVE 4: THE STUDENTS WILL KNOW THE MEANING OF THE TERM "SHRINKAGE" AND HOW IT CAN BE REDUCED.

Stimulus

1. Ask students what the term shrinkage means in business.

Clarify Problem

2. Have students list their suggestions on a flip chart. Discuss.

Provide Information

3. Read and discuss Section 6 of the Readings.

6. What is Shrinkage?

Shrinkage is the loss, damage, or disappearance of merchandise. Suppose that you wanted a 40% gross profit figure on your Profit and Loss Statement (to get this you would use a 66.6% markup on the cost of your merchandise).

When you make up your Profit and Loss Statement, you may find that you made only a 35% gross profit? The 5% of gross profit you lost was probably due to 'shrinkage'. Shrinkage is caused by:

a. errors made in handling merchandise or money
b. shoplifting by customers or theft by employees
c. damage or breakage of merchandise
d. lack of control on your family purchases (for example: taking goods for your own use without keeping a record of them).

To avoid shrinkage you should take care of your merchandise, keep a good record of all money you take in, and keep your personal finances separate from the business finance.

4. Show the filmstrip, "Get on the Ball, Stop Shrinkage". Discuss.

5. Show the film, "Shoplifting". Discuss.

6. Read Section 7 of the Readings.

7. Summary

In this lesson you have discussed the meaning of price to the manager of a business and to his customers - each has a slightly different meaning as it affects each of them differently.

You have examined factors that should be considered when setting prices. These include:

a. Cost of goods
b. Suppliers' suggested retail price
c. Competitor's prices
d. Market demand.

There are three things your price must cover. These are:

a. Your cost when you bought the goods, plus freight charges if any
b. The operating expenses of your business
c. Profit, which is really your pay for doing the work.

In setting prices, you start with the cost of goods and add what is known as a 'markup' to arrive at your selling price. The markup must be sufficient to cover expenses and to provide a profit for you. There are two ways of determining markup:

a. as a percentage of cost of goods, and
b. as a percentage of retail price.

You must fully understand both of these methods if you hope to price your goods properly.

Shrinkage is the loss, damage or disappearance of merchandise. Shrinkage reduces your income because goods which would be available for sale are not available. Shrinkage is something you should control very carefully.

Indicator

7. Have students write their definition of shrinkage, showing the main causes of shrinkage and how shrinkage can be controlled in a retail business.

SUBJECT MARKETING

LESSON MKT8 SETTING PRICE

CASE MKT8 - 1

LOUIS' RIFLE

Louis has been shopping at Nolan's General Store for some time. He buys from this store because he used to go to school with Jack Nolan, the owner.

On the last few trips to the store he has been looking at a new 30-30 Winchester rifle that hangs on the wall. The tag on the rifle shows a price of $120. Although Louis already owns a good rifle, today he is back at the store wishing he could buy the rifle. He decides to talk to Jack Nolan, the store owner, about buying it. Jack is at the back of the store unpacking canned goods.

Let's listen to their conversation.

Louis: "Jack, I have been looking at that new 30-30 rifle you have for sale. Its sure a nice gun, but I think $120 is too much for it. I'll give you $90."

Jack: "Oh, come on Louis, that rifle is one of the best you can get. The people that made it did a real good job on it. It's a real work of art. I think that at $120 you are getting a real deal.

Louis: "But $120 is way too much to ask for it. Do you know how long I have to work to get that kind of money? --- A whole week, then I wouldn't have any of my week's wages to spend on anything else. Hell, Jack, I have to buy food and clothes for the family too, you know.

No, I think that $90 is a fair price and I'll give you that for it right now."

Jack: "Now hold on a minute Louis. Do you think that the price I get for it just goes into my pocket? I have to buy the rifle from my supplier so that only part of the $120 is left over for me. I have to use part of what's left over to pay for operating my store ---heat bills, light bills, and other expenses. Also from the money that's left over I have to pay myself for the work I do here. If I want to expand the store I have to have money to do that, don't I?

So Louis, I'm really not making that much on the sale of that rifle and I think $120 is a fair price."

Questions for Discussion

1. What does price mean to Louis?
2. What does price mean to Jack Nolan?
3. What might happen if Louis is right about the price being too high?

SUBJECT MARKETING

LESSON MKT9 PROMOTING YOUR BUSINESS

INSTRUCTOR'S GUIDE

OVERVIEW

The manager of a small business is in a good position to promote his business since he is personally involved in most of its aspects. It is important that the businessman be conscious of the need to promote his business; he must realize that the image projected by the business will influence the buying habits of people in the community.

It is unlikely that a business will have a neutral public image; rather, it will project either a favourable or negative image, depending on how the businessman approaches his various publics. It will be impossible to please all the people all the time, but the businessman's concern is to create as favourable an image as possible. Some businessmen take a 'laissez faire' approach to the promotion of their businesses. Their attitude is that people will buy from the business if they need the product that is for sale. The situation is not really that simple. The businessman must realize that he can influence the image his business projects.

In this lesson the instructor should start the lesson by emphasizing the importance of promoting a business. This lesson is intended to create awareness of the importance of promoting a business. It is of a general nature and covers a wide area of business promotion. Future lessons will consider certain aspects of promotion in somewhat more detail: MKT10, "Advertising"; MKT11, "Salesmanship"; MKT12, "Merchandise Layout and Display".

MKT9

OBJECTIVES

1. The students will become familiar with the meaning and types of business promotion.

2. The students will discuss the importance of public relations and publicity to their businesses.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Articles in the following Small Marketers Aids: Washington: Small Business Administration:

   Miller, Raymond W. "Public Relations for Small Business Owners", Small Marketers Aids, Annual No. 3. Washington: Small Business Administration, pp. 48-55.

   Goodpasture, Bruce. "Building the Right Reputation", Small Marketers Aids, Annual No. 7, Washington: Small Business Administration, pp. 18-25.

RESOURCES REQUIRED

1. Projectual MKT9-1, "Forms of Promotion"
2. Film, "I Just Work Here" (17 minutes)
3. Copies of daily or weekly newspapers
4. Copies of popular magazines
5. Coupons clipped from local newspaper or collected from other sources, offering products at reduced prices.
6. Examples of sales promotional literature, the kind sent out by oil companies, local retailer, outfitting camps, etc.
7. Cassette tape recording of local radio ads.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will discuss some different ways you may be able to promote your business and the products and services you sell. Later lessons will cover promotion in more detail.

INTRODUCTION

Your products and services won't sell themselves. You will have to do some promoting no matter how little it is. Therefore, you should learn what some different types of promotion are and how they might help in your business.

OBJECTIVE 1: THE STUDENT WILL BECOME FAMILIAR WITH THE MEANING AND TYPES OF BUSINESS PROMOTION.

Stimulus

2. Ask: "What are some ways you can promote the products and services you sell?"

Clarify Problem

3. List answers on the flip chart. Ask students for examples of how they could use each type of promotion suggested in the businesses they plan to start.

Provide Information

4. Read Section 1 of the Readings.

CONTENT

1. What Does Promotion Mean?

In an advertising sense, the word PROMOTION means moving ideas to people. That is, it refers to the ways a businessman can tell people about what he is selling.

Why do you want to tell people about (or promote) your products and services? You want to make them aware of the products or services you have available with the object of increasing your sales. The purpose of your promotion is to get people to buy from your business.

5. Read Section 2 of the Readings. Show Projectual MKT9-1, "Forms of Promotion", while reading this section. Point out that some forms of promotion are directed at large groups of people (shotgun approach), while other forms are directed at the individual or family (rifle approach).

2. Types of Promotion

There are many ways you can promote your products and services. Some may be more valuable than others for your type of business.

a. Advertising (newspaper, radio, T.V., direct mail)
b. Selling (salesmen or sales clerks)
c. Publicity and public relations
d. Other sales promotion:
    - bill boards (in town or on highways)
    - contests (draw for free gift)
    - samples (give away at your store or on door-to-door basis)
    - premiums (buy one, get another free)
    - price off deals (20% off, 1/2 price sale, etc.)

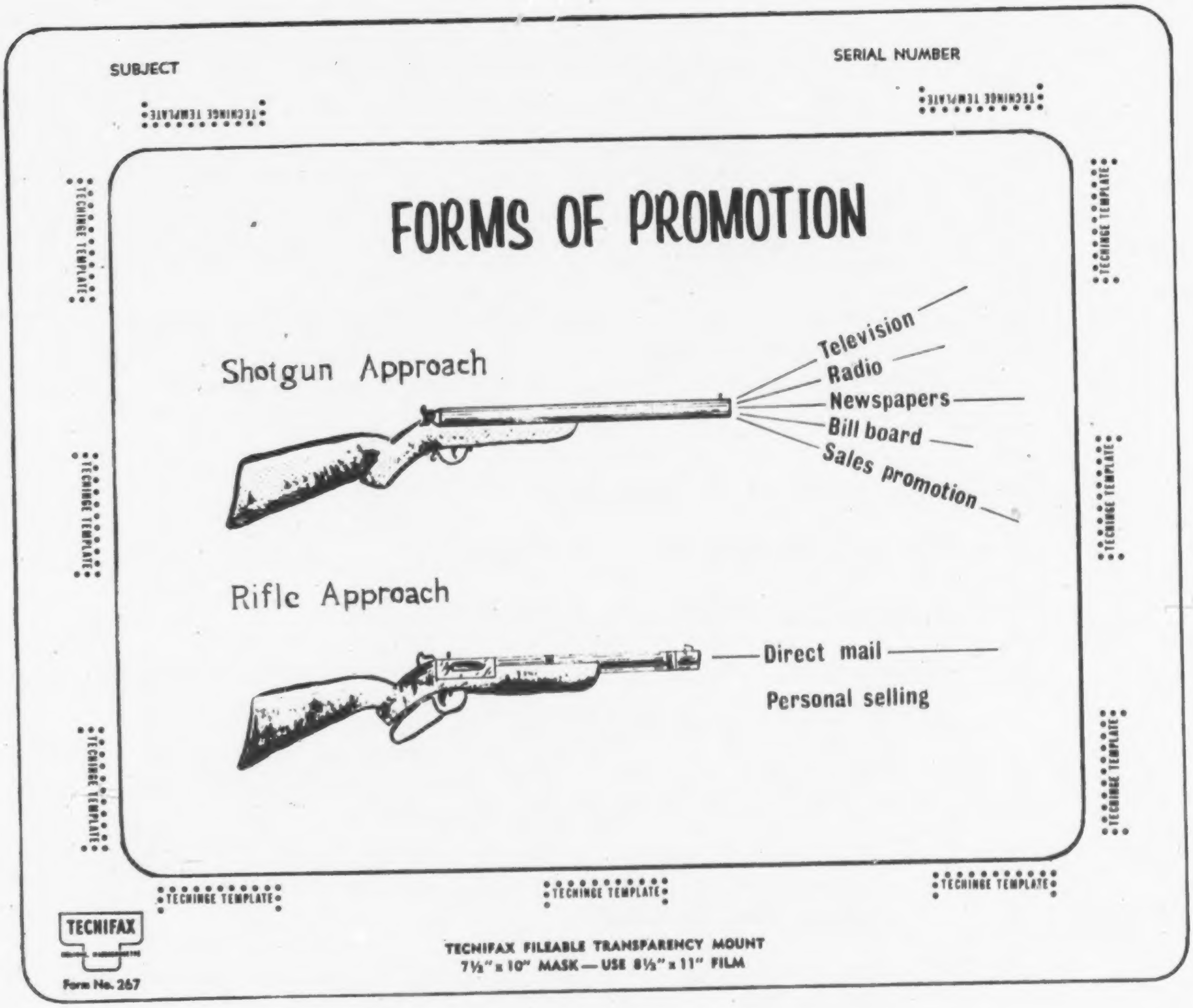
You will probably not use all these types of promotion to help you sell your products or services. However, it is worthwhile to be acquainted with some of the most important forms of promotion.

Remember, no matter what kind of business you run, you will probably be able to improve your sales by doing some promotion. Promotion helps to make people:

AWARE of what you have to sell
INTERESTED in what you have to sell
BUY what you have to sell.

6. Elaborate on each form of promotion indicated above by showing various newspapers, magazines, tapes, coupons, etc. (listed in Resources Required). Try to give local examples where possible.

MKT9-1 FORMS OF PROMOTION



FORMS OF PROMOTION

Shotgun Approach

- Television
- Radio
- Newspapers
- Bill board
- Sales promotion

Rifle Approach

- Direct mail
- Personal selling

SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
TECNIFAX
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM
Form No. 267

Indicator

7. Ask students to:

   a. Define promotion in their own words.
   b. List the types of promotion they think they will use in their businesses.

   Review Readings if necessary.

OBJECTIVE 2: THE STUDENTS WILL DISCUSS THE IMPORTANCE OF PUBLIC RELATIONS AND PUBLICITY TO THEIR BUSINESSES.

Stimulus

1. Ask: "Do you think it is important for a business to have good relations with its customers and other people in the community? Why?" Discuss.

   Mention: "The following film will show the importance of having good relations with customers. The film deals with big businesses but some of the things it shows will also be important to your business".

Clarify Problem and Provide Information

2. Show film, "I Just Work Here" (17 minutes)

   a. Film Setting: Downtown area of a city

   b. Summary of Film Content (Including Instructions on How to Use)

      (1) Film shows four examples of bad company-customer relations: a bank employee and bank customer; a librarian and library customer; a bank manager and customer; and a computer operator and his customer.

      After each situation is shown, stop the film and ask the students: "Did you see anything wrong with the way the customer was treated?"

      (2) Show second part of film. The four situations are replayed showing what a big difference it makes when everybody 'does a little bit extra to help the customer'.

      (3) Discuss the last part of the film. Relate to types of business students plan to start. Point out that this material relates to lesson MKT4, "The Right Product

and the Right Service", where students discussed the importance of being service-minded.

3. Read and discuss Sections 3 and 4 of the Readings.

3. Publicity and Public Relations

Do you think it is important for a business to have a good reputation? Can you think of examples of businesses that are doing poorly because they have a poor reputation or image?

How do you think a business can create a good reputation or image? One way is to get GOOD PUBLICITY. Another way is to develop good PUBLIC RELATIONS.

a. The Meaning and Importance of Publicity

PUBLICITY refers to any FREE advertising a business gets in newspapers, magazines, radio, TV, public meetings, etc. For example, if the local paper does a write-up about your business, then this is PUBLICITY for you. It is some information that gets spread to the public because it is newsworthy. Another example might be if you were going to set up a plant in a particular town.

As long as the business doesn't have to pay for sending these newsworthy messages to the public, it is PUBLICICTY. If the business has to pay for the messages it sends out to people, this is called ADVERTISING.

NOTE: PUBLICITY may be GOOD or BAD
If you read in the paper that a local store or restaurant sold contaminated food to customers, this is BAD publicity for that business. However, if you read that a local business receives a "good housekeeping" award, this is GOOD publicity for that business.

Good publicity creates a good reputation or image for the business. Bad publicity creates a poor reputation or image for the business.

Here is an example of publicity that will help you understand how good or bad publicity affects Big Business. (The same kind of publicity in the local community can affect the image of your business).

ITEM ON C.B.C. NATIONAL T.V. NEWS

The Canadian Food and Drug Council made toothpaste manufacturers submit scientific evidence to back up claims that their toothpaste did reduce cavities and prevent tooth decay.

Only three companies could back up their claims. These were the companies that produce:

Colgate toothpaste
Crest toothpaste
Fact toothpaste

You can see that this publicity would be good (favourable) for the companies that could back up their claims, and bad (unfavourable) for the companies that couldn't.

Publicity about your own business can be good or bad. Good publicity helps sales, but bad publicity hurts sales.

b. The Meaning and Importance of Public Relations

PUBLIC RELATIONS refers to any contacts that help to develop good quality relationships between the business and

(1) its customers
(2) its employees
(3) its suppliers
(4) its community
(5) the government

} These are all the different PUBLICS that the business has.

If the business has good quality relationships between itself and its many PUBLICS, it will have a good reputation or image. Therefore, by trying to have good public relations you can create a good reputation or image for your business.

Public relations may determine whether your business will succeed or fail and are, therefore, very important.

c. How Can a Business Develop Good Public Relations?

Good public relations means that customers, employees, suppliers, community and government have good feelings towards your business.

Whatever attitudes or feelings you hold towards these various "publics" will determine how good your relations with them will be. For example, if you look down on your workers, you will not have very good relations with them. Or, if you do not care about the community, you will not have good relations with its people.

Remember, whether or not your business has a good reputation or image is entirely up to you - it's your responsibility.

4. Summary

The object of promotion is to improve the image of your business and to thereby increase your sales.

There are various ways to promote your goods, services and business. The methods you use to promote your business will depend on the situation. Some types of promotion are more appropriate for one type of business than for another type. You will have to decide which to use. The amount and type of promotion you use will also depend on your financial situation. For example, television ads are very expensive compared to handbills, etc.

Publicity and public relations are forms of promotion at no cost to the business. If you do something newsworthy whether it is good or bad, it may be reported in the newspaper, or on radio or T.V. This is publicity. Public relations, on the other hand, involves the way customers, employees, other businesses, the community and government think about you because of your contacts with them. For example, if you treat customers and employees poorly in the community, your public relations image will be poor, and vice versa. In other words, you have a great deal of control over whether you receive good or bad publicity and whether your public relations are good or bad.

Indicator

4. Ask: "How will you create a good image for your business if you start up in a strange community?" Discuss.

Review Readings, if necessary.

SUBJECT MARKETING

LESSON MKT10 ADVERTISING

INSTRUCTOR'S GUIDE

OVERVIEW

Students have long been on the receiving end of advertisements; however, it is unlikely that they have had much to do with originating advertising. The instructor's job will be to motivate students to look at advertising from the businessman's point of view. The students must answer the question: "How will I do my advertising?"

The Readings material is somewhat theoretical in nature. The instructor should make ample use of practical illustrations of advertising by referring to:

1. the types of businesses which the students plan to start
2. any advertising problems which occurred during the students' business projects, and
3. samples of advertising brought to the classroom.

OBJECTIVE

The students will consider how they will use advertising in their businesses.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Kelley, Pearce C. et al. How to Organize and Operate a Small Business. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1968, ch. 18.

2. Richert, G.H. et al. Retailing Principles and Practices. Toronto: McGraw-Hill Company of Canada Ltd., 1968, Unit 9.

3. Steinmetz, Lawrence et al. Managing the Small Business. Georgetown, Ontario: Irwin-Dorsey Ltd., 1968, ch. 22.

RESOURCES REQUIRED

1. Case MKT10-1, "Advertising Decisions"
2. Projectual MKT10-1, "When Making An Ad..."
3. Samples of advertisements. (from local newspapers, magazines, direct mail flyers, etc. Cassette tapes can be made of local radio advertising.)

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

This lesson will discuss some of the things you should consider when making decisions on advertising in your business.

INTRODUCTION

Advertising is a frequently used form of promotion in a business. You may have to advertise the products and services of your business.

If you need to advertise, how will you go about it? You will have to make many decisions about advertising, for example:

1. To whom should you direct your ads?
2. What should you say in your ads? That is, what should your message be?
3. What means of communication should you use to carry your advertising message(s) to your customers or potential customers? Newspaper? Magazine? Radio? T.V.? Direct Mail?

4. How frequently should you advertise? What times of year?
5. How much money should you spend on advertising?
6. What products should you advertise?
7. Once you have started advertising, how will you be able to tell if your advertising is bringing you results?

If you decide to advertise, you will have to make decisions on these types of questions.

OBJECTIVE: THE STUDENTS WILL CONSIDER HOW THEY WILL USE ADVERTISING IN THEIR BUSINESSES.

Stimulus

2. Hand out Case MKT10-1, "Advertising Decisions"; read and discuss.

   The purpose of this case is to get students thinking about how they would go about advertising in their businesses.

Clarify Problem

3. Discuss questions at the end of each situation in the case. Students may be allowed to make assumptions about these situations where information is lacking. The main point is to get them to realize that these are the kinds of decisions they are going to have to make when they want to advertise in their businesses.

   NOTE: At the end of this lesson students will be asked to prepare a sample ad for each of the situations outlined in the case.

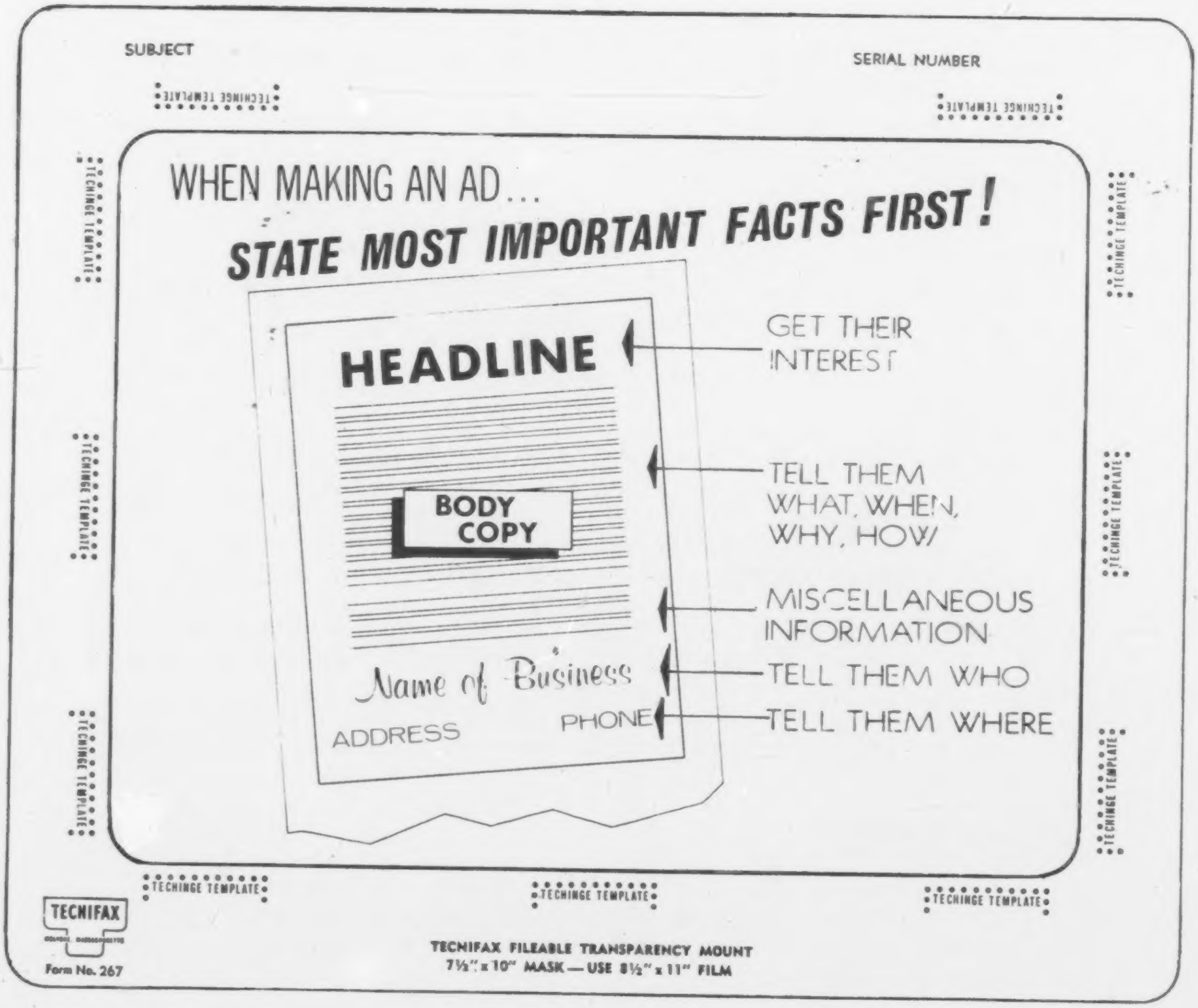
4. Show the students various sample ads brought to the classroom. Be sure to include samples from the Want Ad section of the newspaper.

Provide Information

5. Read Sections 1, 2, 3 and 4 of the Readings. Show Projectual MKT10-1, "When Making An Ad..." while covering Section 3, b. Use as many real life examples and sample ads as possible to illustrate the material.

MKT10

MKT10-1 WHEN MAKING AN AD...



SUBJECT

SERIAL NUMBER

WHEN MAKING AN AD...

STATE MOST IMPORTANT FACTS FIRST!

HEADLINE

BODY COPY

Name of Business

ADDRESS

PHONE

GET THEIR INTEREST

TELL THEM WHAT, WHEN, WHY, HOW

MISCELLANEOUS INFORMATION

TELL THEM WHO

TELL THEM WHERE

TECHINGE TEMPLATE
TECNIFAX
Form No. 267

TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

CONTENT

1. Why Should You Advertise?

Advertising can be defined as any paid form of communication used by a business.

Advertising costs money. It is an expense to a business. Businesses don't have to advertise, but many do advertise since advertising often helps to increase sales. If sales increase more than costs, a business will make more profit.

For example, the following set of figures show that advertising can help a business.

	Without Advertising	With $1,000 Spent on Advertising
Gross Profit	$18,000 per year	$20,000 per year
All Expenses	12,000 per year	13,000 per year
Profit	$ 6,000 per year	$ 7,000 per year

You can see that when $1,000 was spent on advertising the gross profit went up by $2,000 and the profit went up by $1,000.

Sometimes it may not be profitable to advertise. The following figures show that advertising can cost more than it is worth.

	Before Increasing Advertising	After Increasing Advertising by $1,000
Gross Profit	$20,000 per year	$20,500 per year
All Expenses	13,000 per year	14,000 per year
Profit	$ 7,000 per year	$ 6,500 per year

As you can see the $1,000 spent on advertising increased gross profit by only $500, therefore, the net profit dropped by $500 (from $7,000 per year to $6,500 per year).

So, when you are deciding whether or not you should advertise in your business, you have to think about whether or not advertising will increase the profit of your business. The purpose of advertising is to make the business more profit.

You should do some advertising. But be carefuly that the advertising doesn't cost you more than it is worth.

The reasons for advertising are:

a. to make customers aware of your products or services
b. to make customers interested in your products or services
c. to make customers buy your products or services.

2. Types of Advertising

a. Planned Advertising

These are ads that you formally plan; for example, you might plan to advertise in newspapers or magazines, on radio, on billboards, or by direct mail.

b. Word of Mouth Advertising

This refers to information about your business that is spread by people talking to one another. Customers may spread the word that you have good products and services, and this will increase your sales. You can't really plan this advertising.

3. What Steps Should You Go Through in Planning Your Advertising?

If you run a business and would like to do some advertising, what steps would you follow? What decisions would you make?

Below are some suggested decision steps that you could use as a guide to planning the advertising in your business.

a. Step 1: Decide to Whom You Want to Advertise

Advertising is like shooting with a shotgun. This means that you can reach many people with advertising. However, even when you shoot with a shotgun you want to be on target. This means that you have to decide WHOM (what people) you want to reach with your ads. If you just shoot blindly, your advertising won't be as effective as it will be if you pick a target group of people that you want to reach.

So the first step in making advertising decisions is to know whom you want to reach; that is, decide on the target for your advertising. Your target can be present customers or potential customers. Actually anybody who is WILLING and ABLE (has the money) to buy your product or service can be in your target. Sometimes you might have a different target for each product or service you want to sell.

For example: If you had an outfitting business, your advertising target would be men who like to hunt and fish and who can afford to pay for the services of an outfitter.

NOTE: Word-of-mouth advertising is important in this type of business.

b. Step 2: Decide WHAT You Want to Say
That is, what will your message be? Will it contain words only, or pictures also? Will it be in colour or in black and white?

Choose your message so that it TELLS the target people what they need to know. Choose a message and appeal that will make them want to buy your product or service. Remember to match the message and appeal to your target. If you have the wrong message and appeal, then you won't be very successful in your advertising. Two appeals you could choose from are:

(1) Emotional Appeal
In this type of sales appeal, you appeal to the emotions of the buyer. You make the buyer feel that your product or service will please his senses and satisfy his desires.

(2) Rational Appeal
In this type of sales appeal, you reason with the customer. You present him with facts. You give him logical reasons why he should buy your product or service.

Examples

Emotional Appeal	Rational Appeal
A Girl's Dream Come True New Spring Suits $29.95	Ladies' Spring Suits $29.95
The latest thing in sensation and excitement. The ultimate in dress design. Tailored specially for a slenderizing effect. These pink, yellow, and blue pastels will provide a thrill to every purchaser.	A new shipment of tailored tweed suits made from wool fabrics in a wide range of colours and patterns has just arrived. Excellent for street or office wear. No alteration charge.
STEWART'S LIMITED 31 - 10th St.	STEWART'S LIMITED 31 - 10th St.

Some ads are a combination of emotional and rational appeals; for example, here is part of a mail pamphlet used to advertise an outfitting camp in northern Saskatchewan.

NOTE: The pamphlet contained pictures and other information.

Hunting the Moose in Wilderness Backwoods

Would you like to hunt by canoe with a knowledgeable Indian guide where few white men have ever taken their guns before? Would you like to take off by float plane and then drop into a remote outpost camp that is centered in a heavily moose-populated area of the far north?

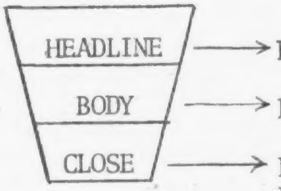
You can be scoping the large antlers of a bull moose by making your reservations early for this exclusive hunt during early calling season in Saskatchewan. You will be hunting with Indian guides in their own hunting grounds.

Comfortable tent camps will be located in these prime areas in the vicinity of the Churchill and Reindeer Rivers, about 50 miles north of the Mista Nosayew base camp at Pelican Narrows. Only a limited number of sportsmen can be accommodated at these camps so it is suggested that you make your reservations early.

The exact season dates vary each year, however, the early season is generally held during a three week period in late September and the first week of October. All you need is your sleeping bag, rifle, hunting gear and licence. We'll supply the food, guides, boat, motor and accommodations.

We also suggest that you bring your fishing tackle and shotgun, as you also will be able to take pike, walleyes and ducks. Full particulars concerning our three-day and five-day packages for parties of four are available on request. $20 deposit per person required on reservations.

If you know what the parts of an ad are it might help you decide WHAT to say in the ad. Most ads are organized as follows:



HEADLINE → purpose is to attract customers' attention

BODY → purpose is to give details of product or service

CLOSE → purpose is to ask for action, (in order to persuade the customer to buy).

Examples

	I	II
HEADLINE	Low Car Prices!	"Super Sale"
BODY	Al's Used Car Lot has over 50 models to choose from. All cars are guaranteed for one year. Drop by and see our friendly salesmen at the corner of 9th St. and 6th Ave.	Bill's Hardware (on Water St.) has reduced prices on complete stock. Sale ends on Friday.
CLOSE	Don't sign any car deals until you've seen our prices!	Hurry down and take advantage of big savings while they last.

c. Step 3: Decide WHAT Message Carriers (Media) Will Carry Your Ads

It is no use knowing who your target people are and what message to send them, unless you can find a way to send the message.

There are many message carriers (or channels, or media) to use in advertising; for example, T.V., newspapers, magazines, billboards, and mail. How can you decide which channel is best? Some of the things you should consider are:

(1) How much will it cost to use the channel? (Generally newspaper advertising costs least; T.V. advertising costs most).

(2) Do the people you want to reach see or hear this channel of communication? That is, what are the habits of the target people? (This is a very important

thing to consider. It is no use to advertise on T.V. if your target group of people don't have T.V. Also it is no use putting your ad in a newspaper if the people you want to reach don't read newspapers).

(3) Generally you should choose the least expensive type of channel or message carrier that reaches the target people.

(4) It isn't enough to decide what type of message carrier or channel to use; you have to decide on the specific member of that channel to use. For example,

- if you decide to use radio, what particular station will you use?
- if you decide to use T.V., what particular station will you use?
- if you decide to use newspapers, what particular newspaper will you use?

Again, you should use the particular station, magazine, or newspaper that gets to the exact people you want to reach. For example, if you want to advertise your products in your town, use the local radio and T.V. stations or the local magazines and newspapers. Don't use message carriers that the town people never see or hear.

For example, consider an outfitting business. What message carriers (or channels or media) should the outfitter use for his advertisements? Since the target group of people are men who like hunting and fishing in the outdoors, the best message carrier would probably be the Sports and Outdoor magazines such as "Field and Stream", Outdoor Life", etc. Or since repeat business is important to the outfitter, he could send mail ads to his past customers. Also the Government Tourist Branch can assist the outfitter with his advertising.

d. Step 4: Decide HOW MUCH Money To Spend on Advertising

It would be nice if there was an easy way to decide how much money to spend on advertising, but there is not. Different businessmen have varied opinions:

(1) Some say: "Spend all you can afford".

(2) Others suggest: "Spend the same amount as your competition spends".

(3) Still others advise: "Spend a certain per cent of your sales on advertising". For example, if your sales are $15,000 a year then you might decide to spend 1% on advertising. This would be $150. 2% would be $300, 3% would be $450, and so on.

(4) Many recommend: "Spend only what you need to spend".

The amount you spend on advertising also depends on how often you want to advertise and the cost the message carrier charges.

For example, how much should an outfitter spend on advertising?

He should spend the amount of money that will bring in the highest net profit. But this means he has to know when more money spent on advertising no longer increases profits. This is hard to determine. Most outfitters probably spend only what they feel they can afford, even though more advertising might increase their profits.

e. Step 5: Decide WHAT Products or Services to Advertise
Sometimes by advertising only a few products, a business can increase the sales of all products. For example, a grocery store may advertise only canned soup, but people probably buy more than soup when they come to the store.

What services should the outfitter advertise to increase his customers?

The people who use outfitting camps are probably most interested in the kind of fish or game, the guides, the country-side, and cabins (are they clean?, etc.). Therefore, these are things the ads should stress.

4. Summary

There is more to advertising than deciding what the advertisement itself will look or sound like. As future businessmen, you will probably be spending money to advertise the products and services of your business. This lesson gave some suggestions on how to plan this advertising.

Indicator

6. Refer students back to case MKT10-1, "Advertising Decisions". Ask them to write a newspaper or radio ad for situations 1 and 2.

7. Ask each student to prepare an ad that they could use in the business they plan to start or in a business with which they are familiar. Have some students put their ads on the flip chart for group evaluation.

8. Refer back to the sample ads brought to the classroom and ask students to evaluate them from the point of view of:

   a. the audience they are aimed at

   b. the message content and appeal (also parts of the ad, headline, body and close)

   c. the media used

   d. the timing of the ad

   e. the effectiveness of the ad.

SUBJECT MARKETING

LESSON MKT10 ADVERTISING

CASE MKT10 - 1

ADVERTISING DECISIONS

Situation 1

John has been running his general store for two years. Sales of groceries were good but sales of non-food items (for example, clothing, hardware) were poor.

John wants to do some advertising to improve the sales of his non-food items.

Questions for Discussion

1. What media (newspaper, radio, T.V., magazine, direct mail, billboards) should John use to advertise?
2. How much should John spend on advertising?

Situation 2

Mr. and Mrs. Williams own an outfitting camp with 18 cabins on a remote northern lake. For the past three years they have never filled more than five cabins at a time with sportsmen.

To attract more customers Mr. and Mrs. Williams have decided to do some advertising.

Questions for Discussion

1. To whom should they advertise?

2. What should they say in their ads?
3. What media should they use?

Situation 3

Assume that you have been running a general store for a year and sales are not as good as you expected.

Questions for Discussion

1. Would you advertise? Why?
2. What products would you advertise?
3. What would your message be?
4. To whom would you direct your advertising message(s)?
5. What media would you use?
6. How much money would you spend on advertising?

SUBJECT MARKETING

LESSON MKT11 SALESMANSHIP

INSTRUCTOR'S GUIDE

OVERVIEW

Nobody can learn to be a good salesman in a few hours; usually months of training and experience are required before a person becomes effective at selling.

This lesson attempts to give the students some of the theory of selling. At the same time, it tries to give them some simulated selling practice through participation in role-play situations. The instructor should try to show the students the connection between the theory and practice.

As future businessmen, the students should be encouraged to think of how they will handle selling in their businesses. If sales clerks are to be hired, the students will have to consider the qualifications and personality characteristics a sales clerk should have. Students should also be encouraged to evaluate their own selling abilities, as it is likely they will do most of the selling in their business.

OBJECTIVE

Given a selling situation, the student will be able to satisfactorily perform as a salesman and carry out the steps of the selling process.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Richert, G.H. et al. Retailing Principles and Practices. Toronto: McGraw-Hill Company of Canada Ltd., 1968, Unit 6.

2. Seguin, G.E. Basic Retailing. 2nd ed. Toronto: Sir Isaac Pitman (Canada) Ltd., 1963.

3. Shaffer, Harold. Fundamentals of Retailing. Toronto: McGraw-Hill Co. of Canada Ltd., 1965.

RESOURCES REQUIRED

1. Films: "Salesmanship: Approach" (10 minutes)
   "Salesmanship: Making that Sale? (14 minutes)
   "Through the Mirror" (27 minutes)

2. Filmstrips: "Johnny Series" (includes filmstrip, record and typed frame-by-frame description.) Optional

   "Johnny Greets the Customer"
   "Johnny Determines Customer Needs and Wants"
   "Johnny Presents the Merchandise"
   "Johnny Welcomes All Objections"
   "Johnny Closes the Sale"
   "Johnny Meets His Boss"

3. Resource person - the owner-manager of a local retail business who does some selling himself and who may have some sales clerks working for him. The business should be one that sells some durable product (example: appliances, clothing, furniture, etc.). It would be ideal to have this person read the Readings over and be present during the lesson (particularly when part 4 of the Readings and indicator are being covered).

4. Exercise MKT11-1, "Rating Qualities Needed in Selling".

METHODOLOGY

1. Do not distribute the Readings immediately.

OBJECTIVE: GIVEN A SELLING SITUATION, THE STUDENT WILL BE ABLE TO SATISFACTORILY PERFORM AS A SALESMAN AND CARRY OUT THE STEPS OF THE SELLING PROCESS.

Stimulus

2. Have instructor and another staff member or two, role-play "How not to Make a Sale". The role-players set up a hypothetical situation which calls for rudeness on the part of the sales person, or non-attentive attitude, or too much pressure, etc. If possible the role-playing situation should be recorded on videotape and shown to the students as a stimulus. If this is not possible, role-play in front of the group.

Clarify Problem

3. Discuss the role-play with the students. Questions you might ask are:

    a. "What was wrong with the saleman's performance? How should he have handled the sale?"

    b. "Can you list some steps a salesman should follow in selling to a customer on a face-to-face basis?" (List on the flip chart. Refer back to these steps when covering Section 4 of the Readings).

    c. "What qualities do you think a salesman should have?" (List on the flip chart. Refer back to this list when covering Section 5 of the Readings).

    d. Encourage students who may have had selling experience to share some of their experiences with the group.

4. Hand out the Readings; read and discuss Purpose, Introduction and Sections 1, 2, 3, 4 and 5. Relate the Readings material to the students' experiences with sales clerks.

PURPOSE

In this lesson you will discuss some of the procedures you should follow when selling to customers.

INTRODUCTION

When a customer comes to shop at your business (or you go to the customer), how will you handle the sale? What kind of a salesman will you be? If you have hired sales clerks, how will they treat the customer?

These are questions you have to answer. You have to learn something about salesmanship. The reason this is important is: the impression a customer gets from a sales person is the impression that customer has of the whole business.

If you or your sales clerks handle the customer properly, the customer will like to buy at your business. If you or your sales clerks are poor salesmen, the customer may never come back.

CONTENT

1. What Does Salesmanship Mean?

Salesmanship refers to:

a. how to sell
b. how to be a good salesman
c. how to handle the customer
d. the ability to sell.

If you have a good salesman, then you have good salesmanship.

2. Types of Selling Jobs

Not every selling job is the same. There are two main types of selling jobs.

a. Field Selling
In field selling, the salesman goes to the customer. This man is often called an outside salesman or travelling salesman. For example:

(1) Suppliers' salesmen who call around to businesses
(2) Salesmen who call around to your house (insurance salesmen, Avon salesladies, etc.)

b. Inside Selling
In inside selling, the customer comes to the salesman. These salesmen or sales clerks work inside or near the business. Most of them are salesmen in retail businesses (such as stores, service stations, and car lots). Two types of inside selling are:

(1) Counter Selling
Here the sales clerk sells to customers from behind a counter.

Small products that are easily handled and stored are usually sold from behind counters. Customers shopping for this type of product usually know exactly what they want. Therefore, the sales person does not really do much "selling". The customer usually says, "I want a pack of brand X gum or brand Y cigarettes", and the sales clerk politely gives him the requested item.

(2) Floor Selling
Here the customer and the sales person meet on the floor where the merchandise is displayed. Large products (for example, appliances, cars, televisions, boats and clothing) that are not easily handled and stored are usually sold in this way. There is more "selling" involved in floor selling than in counter selling. The customers usually do not know exactly what they want; therefore, the sales person has a chance to help the customer make up his mind. This is where salesmanship is needed.

(3) Self-Service Selling
In self-service selling, the customer comes to the business but serves himself. There is no face-to-face contact between the salesman and the customer. Most large retail grocery and variety stores operate this way.

NOTE: Inside floor selling and field selling are the types of selling that are most creative and challenging. You need good salesmanship to do well in these selling jobs.

3. The Parts of Any Sale

The parts of the sale are:

- The customer
- The product (or service)
- The salesman
- The business

a. The Customer
A business cannot exist without customers. When you are selling you must think of your customer.

You must try to understand the customer's needs. You must give the customer the feeling that his patronage is appreciated. You must listen to his wishes and be interested in him. The customer is the most important part of any sale.

b. The Product

As a salesman you must know your products. You must be able to answer all the customer's questions. You and your sales clerks must know:

(1) what features of the product will interest the customer most
(2) what the main advantages of the product are
(3) how the product is used
(4) of what the product is made
(5) what guarantee the product has
(6) how to demonstrate the product.

You must also know your competitor's product.

c. The Salesman

Whether or not a sale is made will depend on you, the salesman. Later on we will discuss the qualities a good salesman should have.

d. The Business

Remember, the impression a customer gets from a sales person is the impression that the customer has of the whole business. This means that it is important for you and your sales clerks to learn good salesmanship practices.

The way you treat the customer will determine how that customer feels towards your business.

4. Steps in the Selling Process

When selling in a retail store (where the customer comes into the store to shop), there are some steps you can follow to help you make the sale. These steps are:

Step 1: Greeting the Customer
Step 2: Determining the Customer's Needs and Wants
Step 3: Presenting the Product
Step 4: Handling Objections
Step 5: Closing the Sale

Here are some things you should know about each of the selling steps.

a. Step 1: Greeting the Customer

This is how you approach and greet the customer. This first step is sometimes called "opening the sale". There are several types of greetings you can use when a customer walks into your store.

(1) Service Greeting - You approach the customer and say "Good morning, may I help you?" or "Hello, may I take your order."

(2) Merchandise Greeting - You approach the customer and say something about the product at which he is looking. For example, you might say, "That shirt is made of wash-and-wear material". "That is the best motor you can buy". "That product is the latest model".

No matter what kind of greeting you use, you should be courteous, friendly and sincere.

The approach and greeting are very important because they set the pattern for the rest of the sale. You must be careful not to scare the customer away.

If the customer is just "shopping around" you should wait a while before approaching him. If you approach him too quickly he may feel that he is being pressured to buy and he may leave the store.

On the other hand, you should not wait too long before paying attention to the customer. The customer may become impatient and leave the store.

A well-timed approach and a friendly greeting are the starting points of a successful sale.

b. Step 2: Determining the Customers' Wants
Some customers that enter your store will know exactly what they want; some have only a general idea, and others may not be sure of what they want.

(1) Customer who knows what he wants
This customer is usually looking around for somebody to serve him. You should approach this customer quickly.

(2) The interested customer
This customer is interested in a type of product (for example, shoes) but he is not sure what brand or kind (for example, the colour, size, etc.) he wants to buy. Wait awhile before you approach this customer - but do not wait too long.

(3) The "shopper"
This type of customer wanders around and does not show special interest in any product. If you approach this shopper too quickly he might feel "pressured" to buy, and he may leave the store. Therefore, you should let him browse. Wait until he stops and shows some interest in a particular product before approaching him.

How can you determine what the customer wants? Here are some hints:

(1) Listen to the customer's comments
Let the customer do some talking. He may tell you exactly what he wants.

(2) Ask him how he plans to USE the product
The way the customer plans to use the product will help you suggest the right product colour, style, shape, quality, etc., that he needs.

(3) Watch the customer's REACTIONS
When you present, explain and demonstrate the product, the customer's reactions will show the type he likes or dislikes.

(4) Remember your regular customers' tastes, problems, interests, etc.
If you remember what the customer has bought in the past or what his likes are, you will be able to suggest the product that will satisfy him. Remember, know your customer! To be a good salesman you have to be able to determine your customers' wants.

c. Step 3: Presenting the Product
After greeting the customer and trying to determine what he wants, you can show the product to him. Here are some pointers you should follow.

(1) Present goods promptly - as soon as the customer makes a request. You should know where all your products are located.

(2) Handle the product carefully and with respect. Do not be rough or careless.

(3) Demonstrate the product (if possible). A demonstration is worth many words. You will hold the customer's attention, develop his interest and impress him with the features of the product when you give a demonstration.

You should give a clear explanation at the same time as you are demonstrating. Point out the strongest features of the product.

(4) Encourage the customer to try the product (if possible). This way your customer can see if the product is really what he wants.

(5) Do not show too many different products. This may confuse the customer. Once you have shown him one product, move it out of the way before you show him the next one.

d. Step 4: Handling Objections

In order for you, as a salesman, to complete the sale, you must learn how to overcome objections that the customer might raise. Some ways to handle objections are:

(1) Politely disagree. For example, if the customer says "It's too light to stand up in rough going," you may answer, "Yes, you may think so, but, actually it is built in such a way that it is strong" or "A lot of people think that, but it actually lasts longer than heavier products of the same type".

This is better than just saying, "No, you are wrong".

(2) Point out a strong advantage to overcome the customers objections. For example, if the customer says, "The price is high" you can say, "Yes, but this is the best quality product you can get".

As you gain selling experience you will realize that objections are part of the selling process. If you know your product well, you will be able to handle any questions or objections the customer may raise. In fact, you will soon learn what objections to expect and you may be able to prevent these objections by giving the customer detailed information about the product in your sales talk.

e. Step 5: Closing the Sale

Once you have presented the customer with the product, demonstrated it, and have overcome any objections he may have, you are ready to close the sale. The customer will give you signs (his comments, questions, tone of voice, etc.) that will help you know when to close the sale. How should you close the sale? Some ways are:

(1) Ask a direct question

When you think the sale is ready to be closed you may say, "Shall I wrap this one up for you?" or "Is this the one you prefer?" or "Do you want this one?"

[illegible] Make a suggestion

If the customer is hesitating, you can say, "I think this is the one you need" then proceed to make out a sales slip or wrap the product. You must be careful not to put too much pressure on the customer.

5. Some General Rules

Here are some general rules that you and your sales clerks should follow in any sale:

a. Always be polite
b. Never hurry the customer
c. Always be truthful
d. Never make a customer buy anything he does not want to buy.

6. Summary

If you want to be successful at selling, you need to know how to:

a. Greet the customer
b. Determine the customer's wants
c. Present the product
d. Handle objections
e. Close the sale.

Selling ability is important whether you plan to start your own business or manage a business for someone else.

The ability to meet and deal with customers is necessary in any business situation.

In lesson MKT4, "The Right Product and Right Service", you discussed the need to provide good customer service. Selling is a service also. The purpose is to help the customer to meet his needs and wants while also meeting the needs of the business. That is, you help the customer to obtain the goods and services he needs and the business makes a sale (receives income.)

5. Optional: Show the Johnny Series of filmstrips and use them to review the Readings. Show the filmstrips in the same order as they are listed under Resources Required.

6. Show the film "Salesmanship: Making that Sale" (14 min.)

    a. Summary of Film and How to Use

        (1) This is a cartoon film about the steps in the selling process. Introduce the film: "This film will show the steps a field salesman goes through in trying to sell a product to a customer.

        (2) Film shows the steps:

            (a) prospecting
            (b) pre-approach
            (c) approach
            (d) demonstrate
            (e) meet objections
            (f) close sale

        (3) Stop film here and list these six steps on the flip chart. Show students that these steps are similar to the five steps in their Readings. The difference is that the Readings considered inside selling in a retail store, whereas the film is about a field salesman.

        The two sets of steps are related as follows (show this on the flip chart).

Field Selling	Inside Selling
Prospecting	
Pre-approach	Determining the customer's wants
Approach	Greeting the customer
Demonstrate	Presenting the product
Meet objections	Handling objections
Close sale	Closing the sale

        The main difference is that the field salesman has to find the customer (prospecting) and find out what his wants are (pre-approach) before he can approach (or greet) the customer.

        (4) Film shows one example of a furnace salesman going through the steps of the selling process while he sells an oil furnace to a family which now has a coal furnace. Film ENDS by showing the strong points of the sale of the furnace.

(5) Discuss the last part of the film. Replay the film if necessary.

7. Show the film, "Salesmanship: Approach" (10 min.)

   a. Summary of Film and Instructions on How to Use

      (1) Play film through completely, then discuss it.

      (2) Film deals with the third step in the selling process for a field salesman; how to make an approach to a customer. It shows how a secretary sees the salesman; it shows how a buyer sees the salesman. The film points out the appearance and actions are important. The buyer has to have interest in the salesman's proposition.

      The film shows how an insurance salesman approaches a prospective client. He makes a plan, gets prepared to present his plan, etc.

      (3) Discuss the film. Try to relate it to students businesses. For example, ask them: "How will you approach your customer?"

8. Ask students to do exercise MKT11-1 and have it ready for discussion at a later date.

Indicator

9. Divide the group into pairs of students. Give each pair the name of a product and ask them to role-play a salesman and customer. Tell the students that the salesmen will be judged by the rest of the group as to how well he carries out the five steps of the selling process. The students role-playing the customer may use their imaginations in creating the situations.

   All performances should be videotaped; the playback, evaluation and discussion should follow each performance. Ask the group to rate each saleman's performance as good, fair or poor on each step and to state their reasons for the rating.

   Switch roles and products so that every student plays the role of the saleman.

   Sample products: suit, fridge, stove, television, car, rifle, ammunition, handicraft item, canoe, outboard motor, shoes, bicycle.

10. Show the film, "Through the Mirror" (27 min.)

    a. Summary of Film and Instructions on How to Use

        (1) The setting is in a city. Situation is as follows: Husband is a salesman; wife sends husband shopping on his day off.

        (2) Husband goes to store to buy cigarettes. Sales clerk sells him a pipe - does a good sales job.

            Stop film and ask: "Did clerk do a good sales job?"

        (3) Husband goes to buy a hat. Sales clerk does a poor job of selling.

            Stop film and ask: "What did he do wrong?"

        (4) Husband goes in to buy a hammer. Sales clerk describes the product well - does a good selling job.

            Stop film and ask: "What did he do right?"

        (5) Husband goes to buy shoes - watches sales clerk sell another man a pair of shoes - clerk does poor job - man walks out. Husband also walks out.

            Stop and discuss.

        (6) Husband looks for anniversary present for his wife (chair). Sales clerk does a good job.

            Stop film and ask: "What were the saleman's good points?"

        (7) Husband meets with insurance salesman for lunch. Insurance salesman does good job.

            Stop and discuss.

        (8) Husband goes to his office and talks to his boss about the experiences he had shopping. He reflects on the things he learned about selling. The moral he arrives at is 'treat our customers the way we want to be treated'. Be attentive, enthusiastic, know your staff. This salesman (husband) reminds himself to think of how a friendly, sincere salesman looks to the customer.

        (9) Discuss the film. Replay portions of it if necessary. Try to relate to students' experiences and future businesses.

SUBJECT MARKETING

LESSON MKT11 SALESMANSHIP

EXERCISE MKT11 - 1

RATING QUALITIES NEEDED IN SELLING

INTRODUCTION

What personality characteristics or qualities should a salesman have? Do you have these qualities? How will you judge whether your sales clerks have these qualities?

To help you answer these questions the following table has been prepared. The table lists all the qualities that make up a good salesman. When you go into business you may wish to use this table to rate your sales clerks and yourself.

Assignment

Using the following table as a guideline, rate the sales people in three stores you enter regularly. Check each quality listed on the next page in the column you think applies most accurately to that person. Then put the number from the top of that column in the SCORE column. Finally, total the SCORE column. A score of 85 or above is excellent; 75 to 84, good; 55 to 74, average; and below 54, poor.

MK11

	(5) Always	(4) Usually	(3) Half	(2) Rarely	(1) Never	Score
Objective........						
Well Groomed.....						
Healthy..........						
Poised...........						
Correct Speech...						
Pleasant voice...						
Enthusiastic.....						
Tactful..........						
Confident........						
Courteous........						
Friendly.........						
Emotionally Mature						
Understanding....						
Industrious......						
Dependable.......						
Good Memory......						
Accurate.........						
Imaginative						
Knowledgeable....						
Interested in Job						
Total..						

SUBJECT MARKETING

LESSON MKT12 MERCHANDISE LAYOUT AND DISPLAY

INSTRUCTOR'S GUIDE

OVERVIEW

Merchandise layout and display will be of most interest to those students who plan to enter a retail type of business. The instructor will perhaps find it easier to keep all students interested by planning a visit to several local retail businesses to look at different types of business layouts and displays. All students have seen store layouts and displays, and will be able to share past impressions of good and bad displays. It is interesting to observe the more critical eye students develop for layout and display following the lesson.

Effective layout and display, like salesmanship, is difficult to teach. Students learn these skills best by doing them. However, it may not be practical to bring actual merchandise and equipment into the classroom to enable students to practise setting up various forms of layout and display. The instructor must try to compensate for this inadequacy by using pictures of store interiors and through the tour of local businesses.

OBJECTIVES

1. Students will be able to distinguish a poor store layout from an effective one.
2. Students will discuss the types and purposes of merchandise display.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Moore, Plasco G. Principles of Merchandise Display. Austin, Texas: The University of Texas Press, 1967.
2. Richert, G.H. et al. Retailing Principles and Practices. Toronto: McGraw-Hill Co. of Canada Ltd., 1968, Unit 8.
3. Shaffer, Harold. Fundamentals of Retailing. Toronto: McGraw-Hill Co. of Canada Ltd., 1965, Unit 8.

RESOURCES REQUIRED

1. Projectual MKT12-1, "Store Layout and Display"
2. Case MKT12-1, "Bill's Two Layouts"
3. Filmstrip and record, "Visual Merchandising"
4. Exercise MKT12-1, "Layout and Display Checklist"
5. Pictures and slides of store interiors (if available)
6. Two flip charts
7. Tour of retail businesses. Arrange for students to tour several different businesses following the lesson. Students should be encouraged to make mental and written notes about store layout and display. The store manager should be consulted ahead of time; the students will gain more if they have an opportunity to discuss layout and display with the store manager.

METHODOLOGY

1. Hand out Readings; read and discuss the Purpose, Introduction and Section 1.

PURPOSE

In this lesson you will discuss the effect that good store layout and merchandise display can have on retail sales.

INTRODUCTION

You can increase the sales of your retail business through effective store layout and display. Good layout gives you efficient use of floor space and makes it easier for customers to move around in your building. Good display makes it easier for customers to see and appreciate your merchandise. Both good layout and good display can help you to sell more.

CONTENT

1. Meaning of Layout and Display

NOTE: We will use the word 'store' to refer to any retail business (general store, supermarket, clothing store, furniture store, hardware, service station, etc.) therefore, we'll be talking about 'store layout' and 'store display'.

a. Store layout. This refers to the way you arrange the floor space inside your store. For example:

(1) Where you locate your counters, equipment, aisles, doors, etc. in the selling area of your store;

(2) Where you locate your storage areas, office, shipping and receiving areas, etc.

b. Store display. This refers to the way you present (or show) your merchandise to your customers. For example:

(1) You may show some of your products in a window that faces the street or road.

(2) You may have special fixtures (racks, stands, etc.) to put your products on.

(3) You may hang some products from the ceiling, or stack them on counters.

(4) You may have cards, arrows, and other signs to indicate prices, directions and location of products.

You can learn a great deal about laying out your store and displaying your products by observing other businesses. In addition, you can usually get advice from other businessmen and your suppliers. Before you start up your retail business, talk to as many people as possible and see how other stores are arranged and their products displayed.

MKT12

OBJECTIVE 1: STUDENTS WILL BE ABLE TO DISTINGUISH A POOR STORE LAYOUT FROM AN EFFECTIVE ONE.

Stimulus

2. Show Projectual MKT12-1, "Merchandise Layout and Display". Ask for the students' reactions to what they see. Have they had experience with stores where everything is crowded?

Clarify Problem

3. Hand out Case MKT12-1, "Bill's Two Layouts". Read and discuss the question at the end of the case. Allow students to talk freely, then call for a vote on which is the best layout plan for a general store. Record the number of students favouring each plan.

NOTE: Students will come back to this case later on.

Provide Information

4. Read and discuss Section 2 of Readings.

2. Factors to Consider in Store Layout

a. The Type of Product You Sell
The layout of your store will depend on the type of merchandise you sell. However, we can make some general comments about any store layout.

There are three types of products or goods you may carry in your store: impulse goods, convenience goods and shopping goods.

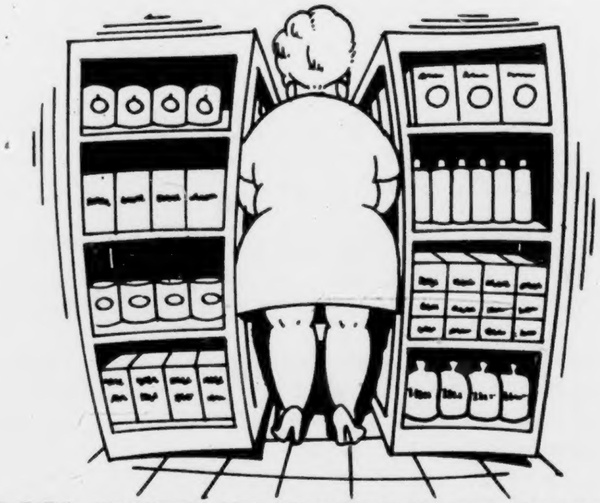
(1) impulse goods are goods that a customer feels he needs or wants when he sees them, even though he may not have planned to buy them when he came into the store (gum, candy, etc.). The customer must see impulse articles before he can buy them. Special displays should be set up where the customer traffic is high, such as near the check-out counter, on the way to where sale merchandise is displayed, or by doors. Remember, these displays must not block the path of the customer.

MKT12

MKT12-1 MERCHANDISE LAYOUT AND DISPLAY

SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE

STORE LAYOUT AND DISPLAY



DOES CUSTOMER TRAFFIC FLOW EASILY?

TECHINGE TEMPLATE
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

(2) convenience goods are goods that customers buy often. This group of goods includes most foods and smaller grocery items. You should arrange your store so that these goods are easy to get at.

(3) shopping goods are goods for which people go shopping; for example, furniture and appliances. The buying of these goods is planned and the customer will look around to get the article he wants. These goods can be located at the back or sides of the store. The customer will be willing to spend some time looking for them.

b. Selling and Non-Selling Areas

The selling area of the store is that area where the customer comes in contact with the product or salesman. The non-selling areas are where you have your office and where you check, mark, receive, and store your stock.

Generally, you should keep the front half of your store for selling purposes. Most of the customers will only walk a short distance into a store, so if you have the products near the front, they will be seen by most customers. Use the back parts of the store for such non-selling activities as receiving, checking, marking, stock storage, etc. These non-selling activities should not occupy space that could be more profitably used for sales.

In the general, the selling area:

(1) should give customers an attractive place to shop

(2) should allow convenient access to products (you can do this by grouping related products together and by having aisles wide enough so the customer can move around freely)

(3) should encourage self-selection of merchandise by customers

(4) should not have old equipment, fixtures, displays, etc. that distract the customer

(5) should not be crowded.

The non-selling area should also be carefully planned.

(1) Office space should be at the back of the store.

(2) Service or parts department should be located at rear of store and should be large enough to meet demands.

(3) Receiving and storage areas should be away from the selling floor (usually at the back of the store or in a warehouse).

(4) Warehouses or other storage areas should be close to the selling area. This will make it easier to restock shelves in the selling area.

c. Other Factors

Here are some other things you should ask yourself before deciding to use a certain layout for your store:

(1) Will your layout make the store easy to housekeep?

(2) Do you have enough counter space?

(3) Do you have enough shelving?

(4) Are the frequently-sold products located where they are easy to get at?

(5) Is your cash register well located? (Usually it is best to put the cash register near the front of the store.)

(6) Does customer traffic flow easily in your store?

NOTE: You could plan your store layout by placing cardboard cutouts (of counters, equipment, etc.) on a piece of paper that has the floor plan of your store drawn on it.

d. Observing Other Businesses

You should check the layout of other similar stores and talk to other businessmen about layout.

Remember, good store layout will increase your sales. A poor layout will be inconvenient for you and for your customers and will lose your sales.

Indicator

5. Refer students back to case MKT12-1, "Bill's Two Layouts", and ask students to analyze each layout plan in the light of the Readings they have just covered. List Plan 1 and Plan 2 on the top of flip

charts and ask students to write down the strong points and weak points of each plan. Compare to the vote taken earlier on best layout. Discuss.

6. The students' observations and discussion during and after tour of retail stores will also serve as indicator.

7. Additional Exercise: Divide students into groups of five or six. Supply them with scissors and blank sheets of paper. Have students cut out the various parts of Bill's layout and arrange them in some ideal way. Have groups compare and discuss their ideas.

OBJECTIVE 2: STUDENTS WILL DISCUSS THE TYPES AND PURPOSES OF MERCHANDISE DISPLAY.

Stimulus

1. Refer students back to Part 1 b. of the Readings and re-read the meaning of store display.

   Ask: "Can you list some points of advice to follow when planning store display?"

Clarify Problem

2. List students answers to the above question on the flip chart. Ask students to elaborate on each point.

Provide Information

3. Read Section 3 of Readings; discuss and compare with the ideas suggested by the students.

> 3. Factors to Consider in Store Display
>
> The purpose of store display is to help you sell more. Good displays will attract the customer's attention, make the customer interested in the product, and encourage the customer to buy the product.
>
> The kinds of displays you use in your store will depend on the type of products you sell. However, there are two basic kinds of store displays you should be familiar with:

a. Window displays. Usually the first thing a customer sees when he approaches a store is the store window. A window display should give your customer a good idea of the kind of store you have. The customer should be able to see the the quality and price of products you carry. The display should be attractive enough to make the customer want to come inside your building.

b. Interior displays. These are displays that you set up inside your store; for example, in showcases, on counters, at the end of an aisle, on shelves, on the floor, from the ceiling, etc. The purpose of interior display is to attract attention to the products and increase sales.

There are three kinds of interior displays.

(1) open displays, where the products are placed on counters, shelves, racks or on any fixture that allows the customer to handle them. Examples of open displays are:

(a) canned goods displayed on a shelf or at the end of an aisle in a supermarket;

(b) gum and candy displayed on the counter near the cash register.

With open displays, your customers can touch and examine your products. Handling the products sometimes gives the customer a feeling of ownership as well as giving him a chance to judge the quality of the products. In addition, this type of display is convenient.

(2) closed displays, where products that are easily damaged, soiled, or stolen are placed in glass showcases. The customer can see the product without handling it. Examples of products that should be kept in a closed display are:

(a) jewellry
(b) glassware
(c) china

(3) signs, which are also a part of interior display. Signs give information about the displays. They often tell about colour, size, style, price. In addition, signs tell the customers where the products are located in your store.

The following suggestions may be helpful in thinking about the signs you use in your store:

(a) signs should tell about the merchandise. Your customers want to know how much the merchandise costs them, the sizes and colours available, etc.

(b) signs should look professional. A sign which is clean and neatly lettered suggests to the customer that the goods offered have been looked after, whereas a messy sign gives the customer the opposite impression.

(c) signs must have exact information. If you have a sign offering some merchandise for sale, but you no longer have any in stock, you will discourage customers from buying other merchandise in your store.

4. Read Section 4.

4. Summary

This lesson has discussed the importance of the store layout in providing easy access and convenience for customers and the effect of display in influencing the customers' buying habits. The businessman knows that a consumer will buy to fill his needs and wants in one or another business. Each businessman's concern is to get the business coming his way, rather than letting it go to a competitor.

The task of planning good store layout and good merchandise display must be the concern of every businessman who is interested in the success of his business.

5. Show filmstrip, 'Visual Merchandising" and discuss. The filmstrip deals with a window display in a large store. The example will not be directly useful to the students, but the principles used can be applied to displays inside the business. Following the filmstrip, students should be encouraged to list the techniques shown in the filmstrip which might apply to a small business. Review filmstrip if necessary.

Indicator

6. Take students on a tour of several local retail businesses where they can observe layouts and displays. Encourage students to make notes on their observations and discussions with the retail business owner or manager.

Have students complete Exercise MKT12-1, "Layout and Display Checklist", in connection with the tour. Back in the classroom, have students evaluate what they have seen and the results of the checklist. Relate to lesson material, and review lesson Readings if necessary.

SUBJECT MARKETING

LESSON MKT12 MERCHANDISE LAYOUT AND DISPLAY

CASE MKT12 - 1

BILL'S TWO LAYOUTS

Bill was planning to start up a general store that would sell groceries, hardware, clothing, shoes and sporting equipment. He had bought a building that was 30 feet wide and 40 feet long. He wanted to arrange things so that the customers could serve themselves as much as possible. Bill also wanted his store to be easy for himself and his customers to move around in.

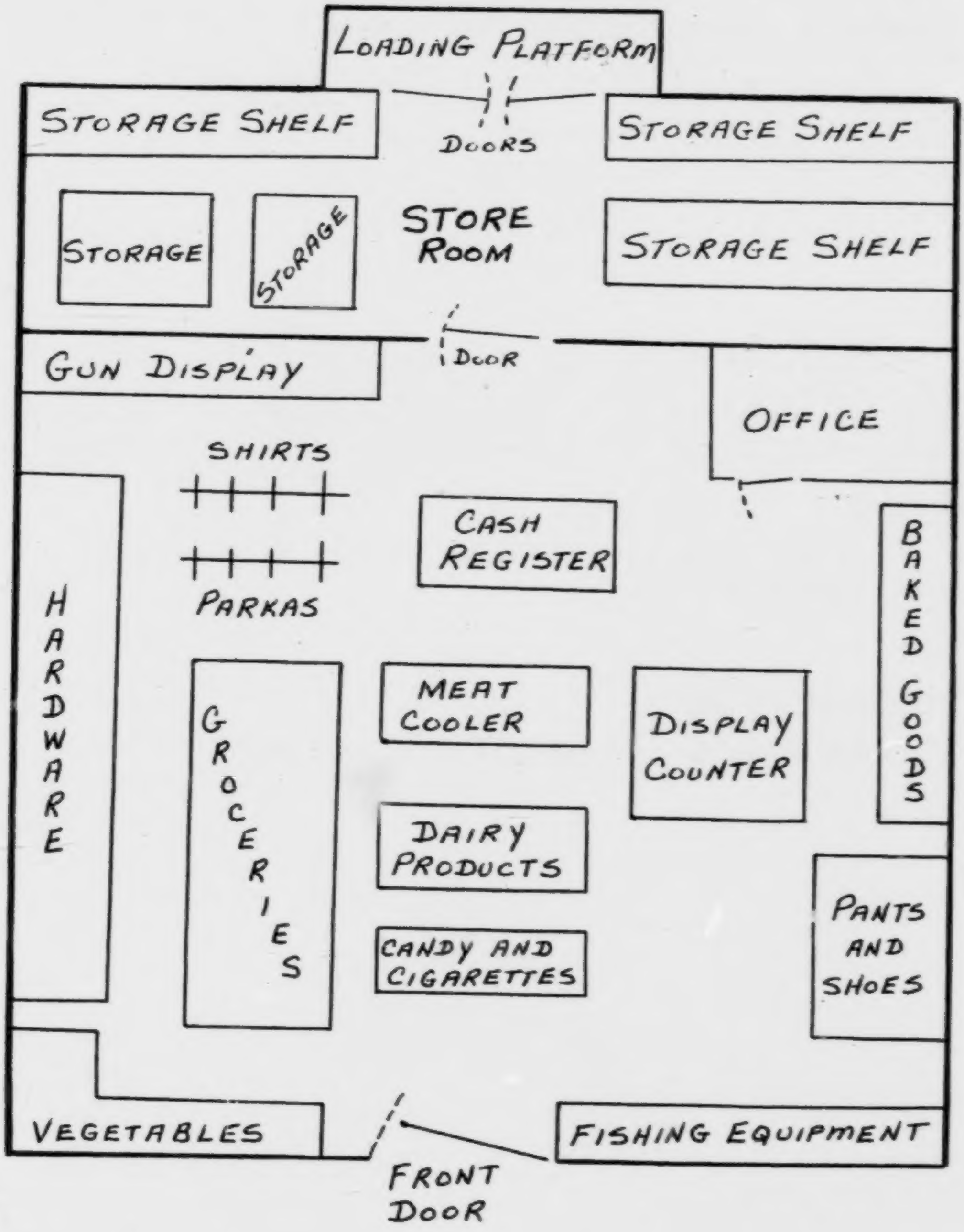
Bill drew up two floor plans that he might use to layout his store. (See next two pages.)

Question for Discussion

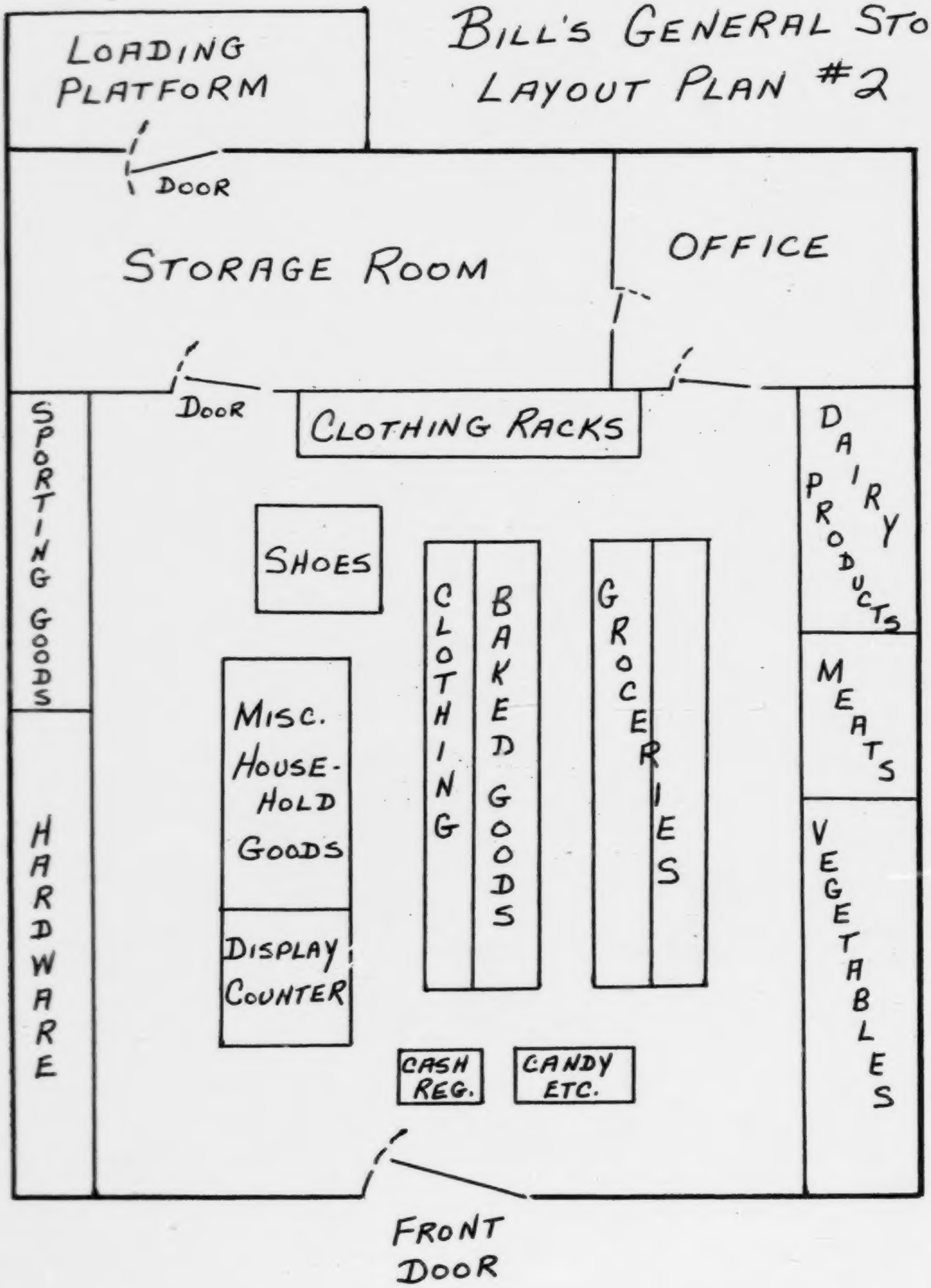
1. Which layout do you think Bill should use? Why?

MKT12

BILL'S GENERAL STORE - LAYOUT PLAN #1


LOADING PLATFORM
STORAGE SHELF
DOORS
STORAGE SHELF
STORAGE
STORAGE
STORE ROOM
STORAGE SHELF
GUN DISPLAY
DOOR
OFFICE
SHIRTS
CASH REGISTER
BAKED GOODS
PARKAS
HARDWARE
GROCERIES
MEAT COOLER
DISPLAY COUNTER
DAIRY PRODUCTS
CANDY AND CIGARETTES
PANTS AND SHOES
VEGETABLES
FISHING EQUIPMENT
FRONT DOOR

BILL'S GENERAL STORE
LAYOUT PLAN #2


LOADING PLATFORM
DOOR
STORAGE ROOM
OFFICE
DOOR
CLOTHING RACKS
SPORTING GOODS
HARDWARE
SHOES
MISC. HOUSE-HOLD GOODS
DISPLAY COUNTER
CLOTHING
BAKED GOODS
GROCERIES
DAIRY PRODUCTS
MEATS
VEGETABLES
CASH REG.
CANDY ETC.
FRONT DOOR

SUBJECT MARKETING

LESSON MKT12 MERCHANDISE LAYOUT AND DISPLAY

EXERCISE MKT12 - 1

LAYOUT AND DISPLAY CHECKLIST

Use this checklist to test one or two local businesses.

LAYOUT

YES	NO	
☐	☐	1. Are the signs placed so that the customer can see all the store and tell where to go for wanted goods?
☐	☐	2. Does the aisle and counter arrangement make people go past many different types of goods?
☐	☐	3. Do the fixtures, signs, lettering, and colours all look good today?
☐	☐	4. Do they just use hanging signs for special sales?
☐	☐	5. Are the counters and aisle tables overcrowded with merchandise?
☐	☐	6. Are the ledges and cashier/wrapping counters kept free of boxes, unnecessary wrapping materials, personal effects, and odds and ends.
☐	☐	7. Do they keep garbage out of sight?

MKT12

DISPLAY

YES	NO	
☐	☐	1. Do the signs tell the customer something interesting about the products rather than simply naming the products and their prices?
☐	☐	2. If they have advertised goods, do they have easy-to-see signs to guide customers to them.
☐	☐	3. Do they display both advertised and non-advertised specials at the ends of counters as well as at the point of sale?
☐	☐	4. Wherever possible, do they give the more colourful merchandise in their stock preference in display?
		5. Is there self-service merchandise arranged so as to attract the customer and assist him in selection by the ways indicated below:
☐	☐	a. Is each group under a separate sign?
☐	☐	b. Is the merchandise in each group arranged according to its most important display feature - colour, style, size or price?
☐	☐	c. For clothing, is the merchandise arranged by price lines to help the customer to make a selection quickly?
☐	☐	d. Is sideways space usually made up of different items and styles within a group (up and down space being used for different sizes - smallest at the top, largest at the bottom?)

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB15 SHOULD YOU SELL ON CREDIT?

INSTRUCTOR'S GUIDE

OVERVIEW

Consumer credit is credit given out by a business to its customers, therefore, these people owe the business money. The businessman is trusting these customers to pay the money they owe, but many times a customer is not able or will not. Whether or not the business is paid by the customer, the business must pay its creditors. Therefore, a business must set out a clear credit policy and must follow this policy in all cases.

In this lesson the student discusses the problems of granting credit. Through role play situations, he is faced with some of the difficulties he will probably meet when he is asked for credit.

Credit is a tool to be carefully watched. Many businesses have gotten into serious trouble through the mishandling of consumer credit. Before granting credit, a businessman must determine a credit policy and then stick by it.

OBJECTIVE

The student will be able to set and use guidelines for the granting of credit.

RESOURCES REQUIRED

1. Case FAB15-1, "The Case of Mrs. Lowe".

2. Projectual FAB15-1, "Where Have the Customers Gone?"
3. VTR unit
4. Case FAB15-2, "John Smith's Credit Decisions".

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will be shown some guidelines for setting up a credit policy for your business.

INTRODUCTION

Selling on credit can cause many problems. Because many times a businessman will have to give out credit, it is necessary for you to recognize these problems. Some of the decisions you must make if you give out any credit are:

1. To whom should I give credit?
2. How much credit should I give?
3. Should I request security when I give credit?
4. What happens if I cannot collect the money which some of my customers owe me?

To answer the credit questions, you have to decide on the type of CREDIT POLICY you will set up and use.

OBJECTIVE: THE STUDENT WILL BE ABLE TO SET AND USE GUIDELINES FOR THE GRANTING OF CREDIT.

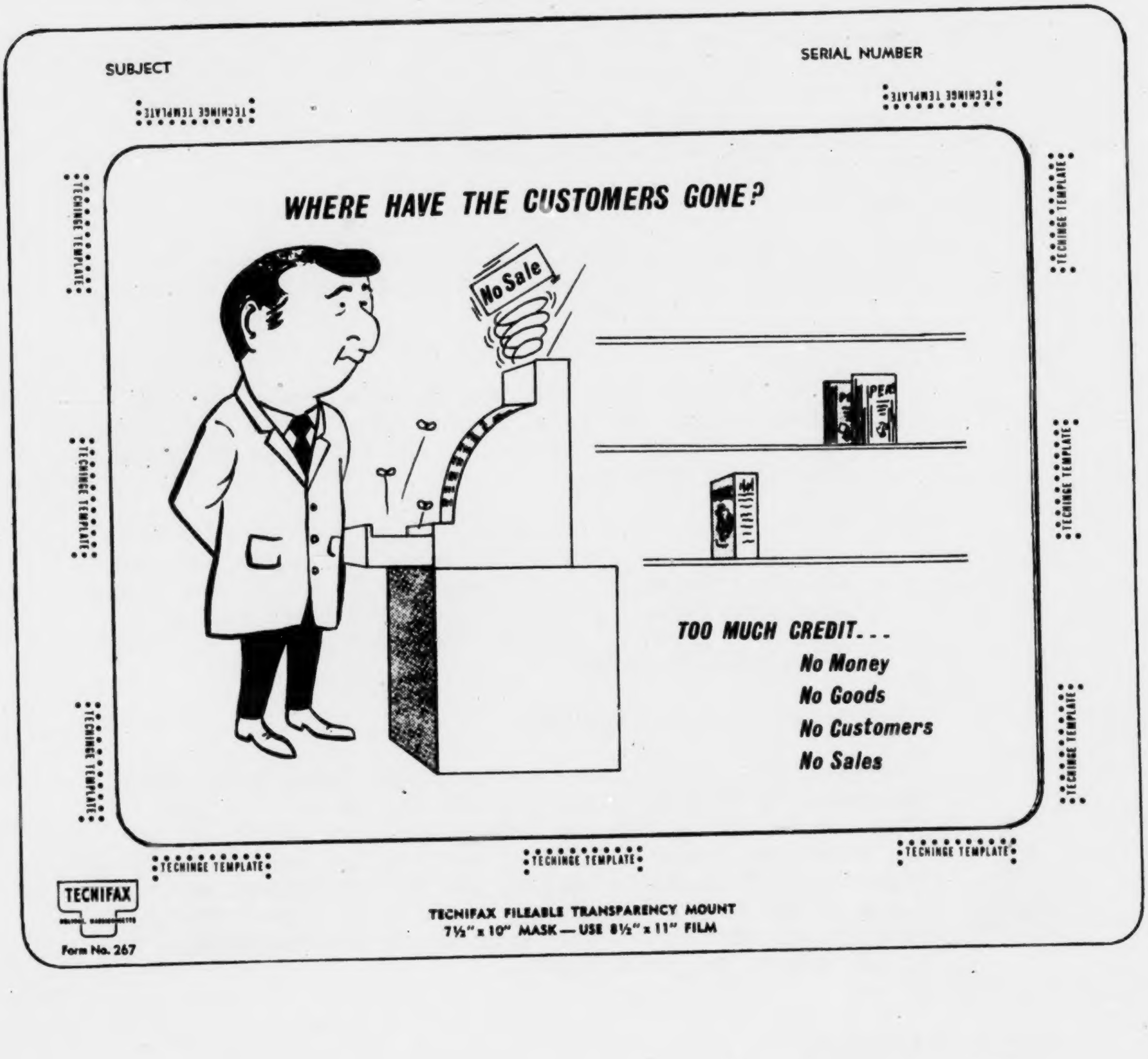
Stimulus

2. Show projectual FAB15-1. Ask students what they see in the projectual. Let them discuss their own experiences with consumer credit.

3. Hand out case FAB15-1, "The Case of Mrs. Lowe", and read with the students.

FAB15

FAB15-1 WHERE HAVE THE CUSTOMERS GONE?


SUBJECT
SERIAL NUMBER
WHERE HAVE THE CUSTOMERS GONE?
No Sale
TOO MUCH CREDIT...
No Money
No Goods
No Customers
No Sales
TECHINGE TEMPLATE
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

Clarify Problem

4. Have the students discuss the questions at the end of the case.

Answers to the Questions:

a. Is credit a right or a privilege?

Credit is a privilege.
According to the Oxford Dictionary "a right is something someone is entitled to". In other words, there is no question of that person not being entitled to the service, act, etc. A privilege on the other hand is "a favour given to a few." Credit is a privilege because the businessman doesn't have to give credit to everyone. He can choose those to whom he will give credit.

b. What should the clerk do in the case of Mrs. Lowe?

The clerk should attempt to calm Mrs. Lowe down until Mr. Elliot can approve more credit if he feels it is safe to do so.

There are various things the clerk could do.

(1) If Mr. Elliot is in the store he could have Mrs. Lowe speak to him. The clerk should give the Lowe's account card and the new sales bill to Mr. Elliot so he can see what the problem is.

(2) If Mr. Elliot is not available, the clerk could ask Mrs. Lowe to step into the office for a discussion. He would have to explain that the Lowes and Mr. Elliot had agreed on a credit limit of $125.00. If the Lowes want more than this amount of credit, they must talk to Mr. Elliot about a higher limit.

c. What should George Elliot do?

George Elliot should have a talk with the Lowes about their account. By looking at his records, he can see how good they are at paying. He can arrange for more credit or, if he refuses them more credit, at least he has reasons he can show them. While it is hard to say "no" to anyone, particularly if the person is related to you or is a good friend, a businessman must objectively look at the customer's ability to pay before he grants credit.

Provide Information

5. Read Section 1 of the Readings.

CONTENT

1. What is a Credit Policy?

Being a businessman is not always fun because many businessmen get themselves into trouble when giving out credit. This happens because they give out credit to customers without really checking to see if these customers can pay the money they owe. When it comes time to collect, the customers become angry at the businessman and hard feelings develop. A lot of the trouble starts because these businessmen do not use a good credit policy.

A good credit policy will help you determine:

a. to whom you can give credit
b. how much credit you should give
c. what terms of payment to use
d. what to do if the person does not pay.

6. Have the students give examples of credit policies with which they are familiar, for example: The policy of small stores with which they deal regularly, or the policy of larger stores.

7. Ask the students what they would want to know about a customer before they gave him credit. Have a student list the requirements on the flip chart.

8. a. Ask the students what they would do in the following situations:

    (1) an uncle asks for credit
    (2) their daughter's husband asks for credit
    (3) the chief **of** the band asks for credit
    (4) a government employee asks for credit
    (5) a person on welfare asks for credit.

   b. Also ask the students how they would decide to give or not to give credit to these people?

   c. You may want to set up a role play here. Have one of the students play the role of the person asking for credit while another plays the role of the businessman. Key points to watch for are:

    (1) logical arguments for and against credit
    (2) checking of past credit history

(3) checking of current work situation
(4) checking of current salary
(5) checking of amounts already owed.

9. Go over section 2 of Readings.

2. To Whom Can You Give Credit?

If you want to stay in business, you cannot give credit to everyone who asks for it. Remember, once your shelves are empty you need money to fill them up again. If you give credit to everybody you will not have any money to buy more goods. Also, do not let friends or relatives force you to give them credit if they are poor bill payers. Many times when credit is easy to get, people will use it too much and end up owing more than they can pay.

So whom do you give credit to? You must know the person who wants credit. Does he or she pay their bills right away? You should try to find out whether he has good or bad credit at another store. Remember that if a person does not pay his bills at another store, he probably will not pay them at your store either.

You should find out how much income the person makes to see if he can afford to pay his bills. You need to know if he works only during certain seasons, and if the money he earns depends on how good a season it was; for example, trapping, fishing, or guiding. You must remember if he has a bad season he will not have as much money as he expected, so perhaps he will not be able to pay his bill.

Therefore if a person asks you for credit you must know:

a. who he is
b. if he pays his bills on time
c. if he owes other people money
d. at what he works
e. how much money he earns during a year
f. when he receives his pay.

If you are satisfied with the answers to these questions it will probably be all right to give him credit.

10. Mention "Once you decide to give credit to a customer, you set a limit on the amount of credit used". Ask the students to come up with a method of setting a limit.
Make sure they check such information about the customer as:

a. money being earned
b. past credit history
c. ability to meet payments of bills
d. security you can get in order to make sure bill will be paid.

Have one of the students list on the flip chart the criteria they would use.

NOTE: The Instructor may want to suggest three subheadings for this criteria:

character - what kind of person is he?
collateral - can he offer any security?
capacity - how much credit can he handle?

These are known as the 3 C's of credit.

11. Read section 3 of Readings.

3. Setting a Limit on Credit

When you give someone credit, you don't allow him to take as much as he wants. You are the store owner so you must decide how much credit you can give. The person who gets hurt if the bill isn't paid is you, not the customer. So you must protect yourself by setting a limit on how much credit each customer can have. The important question is not how much can your customer afford to pay, but rather how much credit can you afford to give.

When deciding how much credit your business can afford to give, you must look at your records and remember your plans. Your business has bills to pay; if you give out too much credit you won't have the money on hand to pay these bills. You also have plans for your business. If you want to build a new building, make your present building larger, buy or lease new equipment, or buy more goods, you need money. If you give out too much credit you will not have the money to carry out your plans.

You must know how much money your business will need before you know how much credit you can give. Many times you cannot give anyone credit because your business needs the money right now to pay its own bills.

Once you have decided how much credit your business can afford to give, you then have to decide how much credit customers will be allowed to use. You MUST set a limit on the credit you give each customer.

When setting a limit for a customer you must look at who he is, what his record of paying bills is like, how much he earns, how much he can afford to pay, and how much security he has.

If the customer does not earn very much or must pay other bills, you should not give him too much credit. This doesn't mean that you doubt the customer's intention to pay you back; rather it means that if he gets too much credit he will not be able to pay you. You need money to keep your business going so you have to be careful how much credit you give out to anyone. Once you decide what each customer's credit limit is you should keep within this limit.

12. Have the students discuss the manner in which they would like their credit customers to pay their bills.

    a. Will they allow open accounts where the customer pays what he wishes when he wishes?

    b. Will they have the customer pay a minimum amount on the account each month?

    c. Will they have the customer completely pay off the bill before more credit is allowed?

    An important question to bring up is how much interest, if any, will they charge on the unpaid balance. Remember, it costs the businessman money to service the accounts.

13. Read Section 4 of the Readings.

4. What Terms of Credit Should You Use?

When you give out credit, you and the person getting credit must agree when the bill is to be paid and how much each payment should be. These are your TERMS OF CREDIT.

Some businesses let people pay a certain amount every month. For example, if the customer owes $100.00 at the store, he might agree to pay $25.00 a month until the bill is paid. And he might also agree not to take any more credit until the current bill is paid.

Other businesses tell their credit customers that their bills must be paid at the end of the month. For example, if a customer's bill came to $75.00 for the month, he must pay this off at the end of the month before he can get any more credit.

Other stores allow people to pay part of their bills and still get credit. For example, a customer might have charged up $50.00 worth of goods in one month. At the end of the month he pays $25.00. The next month he might charge up more goods costing $30.00. At the end of that month he would have to pay part of his bill. The important thing to remember here is that you must decide on a credit limit for each customer. If the customer has a bill equal to the total amount of credit you decide to give him, then you shouldn't let him charge any more goods until he pays part of his bill.

When you give a customer credit, you must make the terms of payment very clear. Your terms of payment must ensure that the business will have money on hand to pay its bills and carry out its plans.

14. Pause here and mention: "While it is nice to think that everyone who obtains credit is going to pay it back, it is not necessarily true". Have the students discuss the problem of unpaid bills and/or slow paying accounts. Customers might become angry if the businessman is too tough but what measures can the businessman take to protect himself and yet not make customers angry? What problems do the students see in the area of collecting unpaid bills?

15. Read section 5 of the Readings. Have the students discuss.

5. What If a Person Does Not Pay?

If you give credit, one of the biggest problems you will face is what to do if a customer does not pay his bill. Here are some of the things you can do:

a. You can sometimes repossess some of the merchandise.

b. You can discuss it with the customer in private. (Everyone in the community does not have to know the customer's credit rating.) Give him two alternatives:

    (1) He can have a new arrangement for paying his bill.
    (2) He will never again be given credit in your store.

c. If a person has security, you can hold it until he has paid. For example, when a person asks for credit and he owns some land, or equipment you can take the title of it to make sure he pays his bill. When you take security make sure that he has paid for the security, and that it is worth about the same as the amount of credit you are giving.

Many times the customer doesn't own anything for you to keep until he pays. Also, many times the amount of credit doesn't seem large enough for you to take something as security. In these cases, you have to make sure that you can trust the customer to pay you back before you will give him credit.

You must protect your business from losing money when people don't pay their bills.

16. Summarize lesson by reading section 6 of the Readings.

6. Summary

Before you can give out credit, you must know how much money you will need to pay the business's bills. You must also know how much money you will need to get more goods, build on to your building, or buy more equipment. Once you know how much money your business will need, now or in the future, you can decide on the amount of credit you can give.

You cannot give credit to everyone. You must know:

a. who the customer is
b. if the customer pays his bills on time
c. how much he earns
d. how much he can afford to pay.

When you give out credit make sure the customer knows the terms of credit; that is, he should know:

a. how much credit you are willing to give him
b. when he has to pay the bill
c. what will happen if he does not pay.

It is very hard to say "NO" to a person asking for credit. But if you really want to make your business succeed you must learn to say "NO".

When a person approaches you for credit, or if you have to talk to a customer about his bill, you should talk to him where other people cannot hear you. A customer's credit is not the business of everyone in the community.

When deciding on credit, remember this: Although individual bills may be small, the sum total adds up quickly. If you do not watch your credit you can go broke fast.

Indicator

17. Set up videotape recorder unit. Hand out and read case FAB15-2, "John Smith's Credit Decisions". Form the students into three groups - each group to decide how they would play the part of one of the main characters in the case: John Smith, Verne Carter or May Jack.

    Then have one volunteer from each group play the roles. Have the volunteers leave the room to read over their role descriptions and decide how to act their parts. The students remaining in the classroom will prepare the room for the role-play.

    Allow about 15 minutes maximum time for each role-playing situation. Film both situations.

18. Play back the videotape and have the students analyze the handling of the situations. It might be best to get comments from those who played the parts first, then comments from the whole group. Ask other group members if they wish to act roles as different customers of John Smith.

19. Have the students discuss the credit policy John Smith used in the role-play situations. Have the students develop either a new credit policy or a more detailed one which John Smith might use in future.

20. Suppose Mary Jacks obtains the additional credit and later does not pay, how much merchandise does Verne Carter have to sell to break even if he has a gross profit of 20% and a net profit of 10% after expenses.

    Answer: $105.00 credit = $1,050.00 in sales to break even.

    Stress the dangers of too liberal a credit policy. What happens if 15 or 20 customers do not pay?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB15 SHOULD YOU SELL ON CREDIT?

CASE FAB15 - 1

THE CASE OF MRS. LOWE

Mrs. Peggy Lowe bought some goods at Elliot's General Store. When the clerk said, "That will be $21.42 please," Mrs. Lowe said, "Charge it."

The clerk looked up Mrs. Lowe's account and found that the Lowes owed $124.50 and their credit limit was $125.00.

The clerk said, "I am sorry, Mrs. Lowe, but your account is already up to the amount for which you arranged. You will have to see Mr. Elliot if you want more credit."

Mrs. Lowe became very angry. "I'll do nothing of the sort," she stormed. "You have to charge this! If you don't, I'll take my business elsewhere."

Questions for Discussion

1. Is credit a right or a privilege?
2. What should the clerk do in the case of Mrs. Lowe?
3. What should George Elliot, the store owner, do?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB15 SHOULD YOU SELL ON CREDIT?

CASE FAB15 - 2

JOHN SMITH'S CREDIT DECISIONS

BACKGROUND MATERIAL

For many years Stoney Bay was a small settlement situated on the water route the old traders used to use. In recent years, especially with the building of a road, it has become important as a government service centre. The population is about 300.

Government services include Department of Natural Resources, Department of Health and Welfare, Department of Highways, Royal Canadian Mounted Police, and the Post Office.

There is one bulk oil distributor and two service stations. There is a large store belonging to one of the northern trading companies and a smaller store run by John Smith. There is a filleting plant which also sells some supplies.

The main type of work done by the people of Stoney Bay is commercial fishing. There is also some trapping but the price of furs is low. In addition, some of the people work as guides for the tourists at two near-by outfitting camps.

There is some social aid given to people in the settlement. The average yearly income of most of these people is $1,000.00 or less.

THE PROBLEM

John Smith, who runs one of the stores in the settlement, has to make a decision on credit. The other store gives out credit but since it is only one of a large chain of stores, it does not have to be as concerned about people not paying their bills. If the manager cannot collect all the money people owe his store, he can still operate because the company he works for has a good credit rating with is suppliers. If the chain store in Stoney Bay has a bad time with credit, they can charge more at their other stores where there is no competition in order to make up their losses.

Another part of the problem is that the filleting plant advances the fishermen groceries, gas and nets, and deducts the bills from their fish cheques. This is legal and it frees the manager of the plant from worrying about collecting the money his customers owe him. Some fishermen are always in debt to him and cannot ever pay up their bills, but they can get groceries in advance when they need them.

John Smith does not like to give out credit. He needs the money from selling goods so that he can pay his own bills. Many people in the settlement have asked John for credit but he has always been reluctant to give credit. This has made many people angry, and John is afraid that some of his customers might stop dealing with him if he does not give more credit.

John and his wife have lived all their lives in Stoney Bay, and have many relatives and friends in the settlement. John is afraid that if he does not give out more credit, his relatives and friends will become angry. John wants to be able to help his relatives and friends get supplies by keeping his prices low but if he gives out too much credit he will have to charge more for his goods. John knows that he cannot give credit out to everybody. He must decide to whom to give credit at his store, how much each customer can get and what terms of payment he should use. John needs a credit policy so that he can explain to his customers why they can or cannot have credit.

SITUATION ONE

Description:

Name: Verne Carter

Age: 28

Occupation:
- fishing, trapping, guiding
- generally seasonal work

Income:
- usually clears about $1,200.00 per year

Family:
- married, 5 children aged 3 to 15

FAB15

Verne Carter and his wife have lived in the settlement all their lives. Verne has been a good cash customer and does most of his buying from John Smith's store.

He is a good family man, and a hard-worker. Active in community affairs, he is trying to get things done for the people so that they can have a better life. He helped bring the fishermen together so they could get better fish prices. He is trying to bring the trappers together so that they can get better prices for their furs.

Situation:

Trapping was not too good this year so Verne Carter didn't make as much as usual. He needs to get $100.00 worth of supplies to last him and his family until he can start his guiding job with Steve Marleau's Outfitting camp. When he is guiding he makes good wages because he is good at his job.

SITUATION TWO

Description:

Name: May Jacks

Age: 32

Occupation: - wife and mother

Income: - no income of her own

Family: - married, 3 children

May Jacks is the wife of Lawrence Jacks who works with Natural Resources during the summer months but does not have a steady job during the winter months.

May is the sister of the store owner, John Smith. She becomes angry very easily, stays angry for a long time and tries to get even.

The Jacks used to deal at the other store in town where they charged a lot of goods. Although they paid off most of what they owed, the other store owner is having trouble getting the rest of his money.

FAB15

Situation:

May Jacks has come into John Smith's store and ordered a lot of goods which came to a total of thirty-five dollars. She told the clerk to charge these goods. After the clerk looked at her account, he said she owed $75.00 already and she wasn't supposed to charge more than $75.00 worth of goods.

May became angry and told the clerk that if he didn't charge them, she would tell her brother (the store owner) who would fire the clerk. And if he wasn't fired, May said she would never come back to the store and they would never get the $75.00 she owed.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB16 RECORDING CREDIT SALES

INSTRUCTOR'S GUIDE

OVERVIEW:

A transaction in which a businessman sells merchandise to a customer who agrees to pay later is known as a sale on account, or more commonly, a credit sale. The money owed by the customer for the merchandise is called an Account Receivable.

A businessman must be able to tell at all times how much money he has outstanding in Accounts Receivable (that is, how much is owed to the business in the form of credit sales). In order to do this, an Accounts Receivable Ledger is set up.

Also of great interest to a businessman is how much of his total sales are credit sales. In order to find this information, a special Journal called a Sales Journal is set up.

In this lesson the student will learn how to set up and use a Sales Journal and an Accounts Receivable Ledger.

OBJECTIVE

Given a situation involving the sale of goods on credit and the receipt of a payment on an Account Receivable, the student will be able to make the correct bookkeeping entries.

RESOURCES REQUIRED

1. Case FAB 16-1, "Credit Sales".

2. Ledger sheets
3. Projectual FAB6-1, "The Sales Slip".

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to show you how to set up your books so that you can tell two things about your credit business:

1. How much each credit customer owes to your business, and
2. How much credit all your credit customers owe to your business.

INTRODUCTION

Why keep track of credit you give to customers?

When a customer (who owes you money) comes in and asks: "How much do I owe?", you have to be able to tell him right away.

By knowing how much each credit customer owes you can tell if you can give him any more credit. By keeping good records you can quickly see if the customer is a good bill payer or if he is a poor bill payer.

By knowing how much you have out in credit you can see if you have to start cutting people off from getting credit because you need the money right now to pay your business's bills.

OBJECTIVE: GIVEN A SITUATION INVOLVING THE SALE OF GOODS ON CREDIT AND THE RECEIPT OF PAYMENT ON AN ACCOUNT RECEIVABLE, THE STUDENT WILL BE ABLE TO MAKE THE CORRECT BOOKKEEPING ENTRIES.

Stimulus

2. Ask: "If you give out credit to different customers, how are you going to keep track of the amount that each one owes you?"

Clarify Problem

3. Have the students discuss any systems with which they are familiar (For example, stores in their community might use individual books or cards). Try to get the discussion centred on problems they have experienced in finding out how much they owed and any other information about their account.

Provide Information

4. Read Section 1 of the Readings.

CONTENT

1. Accounts Receivable

When you give a person goods on credit you are making a sale. The difference between this kind of sale and those where a person pays cash right away is the fact that in a credit sale a person owes you money.

If you give a person a loan of $50.00 cash and he says he will pay it back at $10.00 a month you will want to keep track of how much he has paid you back and how much he still owes you. Well, in business, you have to keep track of how much people owe you and how much they pay you. The amount of money a person owes your business because of credit sales is called an ACCOUNT RECEIVABLE.

5. Ask: "What method have you seen used to keep track of individual purchases?" Discuss.

6. Read Section 2 of the Readings.

2. Credit Sales Slip

When a person buys goods from you on credit you have to keep a record of the amount of money he owes. You can do this by using a sales slip.

On the sales slip you mark the date of the sale, the name of the customer and the amount of the sale. Then you mark the bill "CHARGE" and have the customer sign it. You have him sign it so that you can show him that he really did get the goods, in case he forgets that he bought goods from you on that day.

You then give the customer one copy of the sales slip and you keep one copy for your own records.

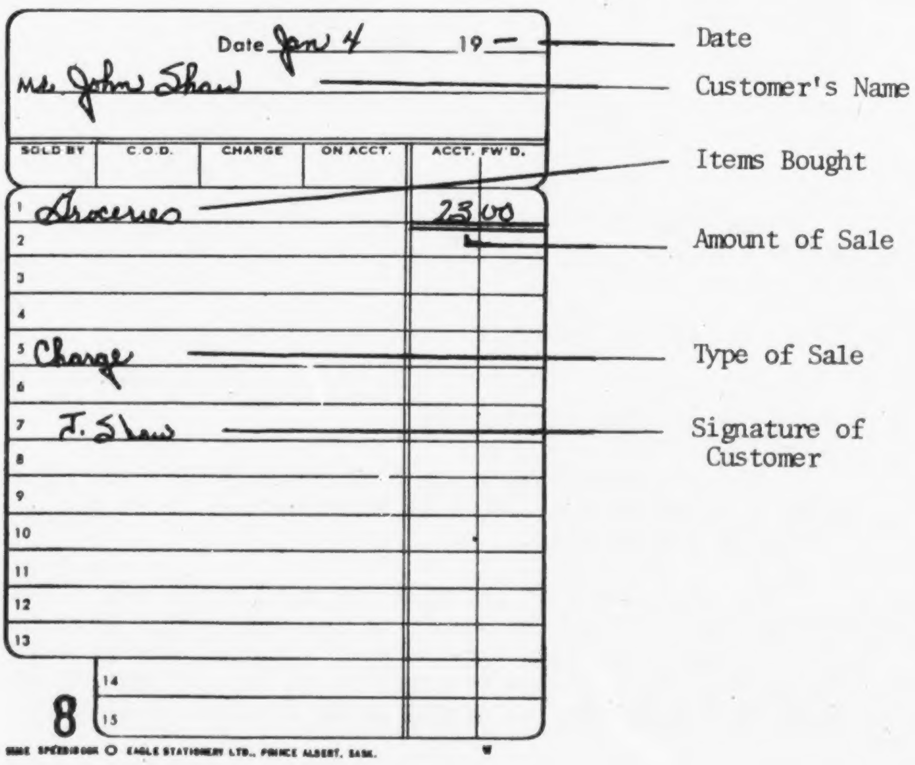
Example

On January 4, 19__ John Shaw wanted to buy some groceries on credit from Joe Mathew. Since this was the first time John had bought on credit, Joe gave John a credit limit of $75.00. John bought $23.00 worth of goods on credit.

This is how Joe made out the sales slip:

Step 1: Marked in the date, January 4, 19__
Step 2: Marked in customer's name, John Shaw
Step 3: Filled in items bought, groceries $23.00
Step 4: Marked type of sale, charge
Step 5: Had customer sign bill.

Joe gave the original of the sales slip to John and kept the copy for his records.



Date Jan 4 19 —
Mr. John Shaw

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

1 Groceries 23|00
2
3
4
5 Charge
6
7 J. Shaw
8
9
10
11
12
13
14
15

8

[illegible] SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK.

Date
Customer's Name
Items Bought
Amount of Sale
Type of Sale
Signature of Customer

7. Show Projectual FAB6-1, "The Sales Slip", and discuss.

8. Fill in a sample sales slip for a credit sale using the example in the Readings.

9. Hand out Ledger sheets.

10. Read Section 3 of the Readings.

3. Recording Credit Sales

At the end of each day the credit sales for the day must be recorded. Credit sales are recorded in a special Journal called the Sales Journal. Only sales on credit are recorded in the Sales Journal. The information for the entry is obtained from the credit sales slip. Shown below is how John Shaw's sale would be entered in the Sales Journal.

Sales Journal Page 1.

DATE	DESCRIPTION	CREDIT SALES (CR)	SALES TAX (CR.)	ACC/REC (DR.)
19—				
Jan. 4.	John Shaw	23 00		23 00

Above is the Sales Journal entry Joe Mathew made to record the credit sale to John Shaw. As you can see he first recorded the date of the sale, then who the sale was made to, the amount of the sale (without tax) and finally the amount of the Account Receivable.

Below are some further examples of credit sales and how they are recorded into the Sales Journal.

January 4	George Norman;	$41.00
January 4	Bob Bell;	$10.51
January 5	C. E. O'Neil:	$82.00

Sales Journal Page 1.

DATE	DESCRIPTION	CREDIT SALES (CR.)	SALES TAX (CR.)	ACC/REC. (DR.)
19—				
Jan. 4.	John Shaw	23 00		23 00
Jan. 4.	George Norman	41 00		41 00
Jan. 4	Bob Bell	10 51		10 51
Jan. 5.	C. E. O'Neil	82 00		82 00.

11. Using the flip chart, illustrate how the Sales Journal entries are recorded. First use the example in the Readings, then give further examples, if necessary.

12. Read Section 4 of the Readings. Using the flip chart illustrate how Sales Journal entries are posted daily to Accounts Receivable Ledger Accounts. Discuss.

4. Posting the Sales Journal to the Accounts Receivable Ledger

If you have 10, 20 or more customers who buy on credit from you it will become difficult to know how much each owe to you, unless you keep a record for each customer. To do this you set up an Accounts Receivable Ledger in which individual accounts for each credit customer are kept.

You use a number of pages for the Accounts Receivable Ledger since you need one page for each customer. At the top of the page you mark the customer's name and address. You should also put the credit limit the customer can use.

ACCOUNT NO. ________ SHEET NO. ________
NAME John Shaw TERMS ________
ADDRESS ________ CREDIT LIMIT 75 00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19										
Jan.	4	Sale			23 00			Dr		23 00

At the end of each day you transfer the information from the Sales Journal to the individual accounts receivable cards. For each account, add the new sale to the amount of money already owed to get the balance (that is, how much he owes you now).

When Joe recorded the credit sale for John Shaw, he recorded the date, January 4, 19__. He recorded what the entry was (a sale). Then he recorded the amount of the sale into the DEBIT column ($23.00). Money people owe you (accounts receivable) is listed as a debit. When you record accounts receivable you debit the person's account because your business received a benefit by getting more accounts receivable. Your business received this benefit from making a credit sale.

13. Read Section 5 of the Readings. Using the flip chart illustrate the month-end procedures necessary to record the credit sales into the General Ledger.

5. Posting Sales Journal to the General Ledger

At the end of the accounting period, the totals of the two columns in the Sales Journal are posted to the General Ledger accounts. The accounts involved in this entry are:

Accounts Receivable Control
Credit Sales

a. Accounts Receivable Control
This account takes the place of the customer's accounts in the General Ledger. It shows in summary form all of the information shown in detail in the Accounts Receivable Ledger.

b. Credit Sales
Many times a business will have two sales accounts in its General Ledger:

(1) Cash Sales - sales which are paid for at the time of purchase.

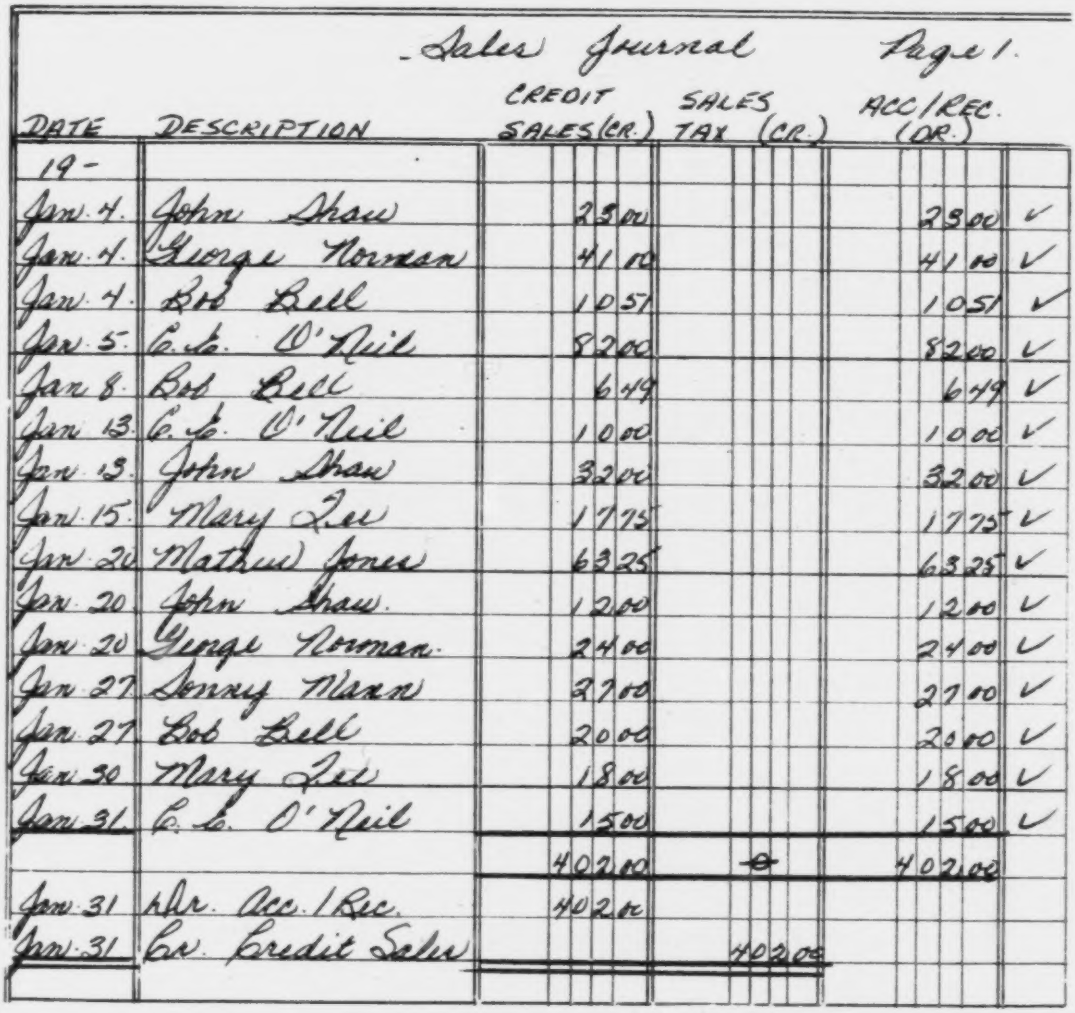
(2) Credit Sales - sales in which the customer takes the merchandise and promises to pay at some later date (sometimes called charge sales).

It is sometimes very helpful to be able to distinguish between the two types when analyzing your operations over an accounting period.

c. Posting the Sales Journal
The accounts receivable and credit sales in the Sales Journal are totaled for the period. The totals are recorded in the General Journal as follows:

Debit: Accounts Receivable Control
Credit: Credit Sales

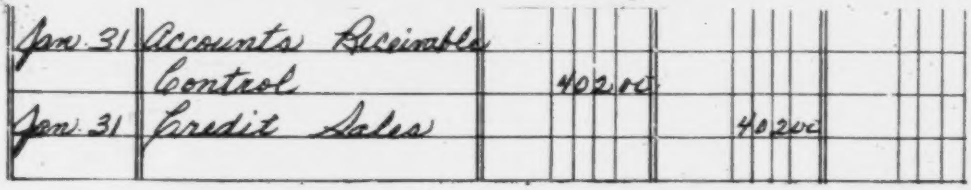
On the following page is Joe Mathew's Sales Journal for the month of January:



Sales Journal Page 1.

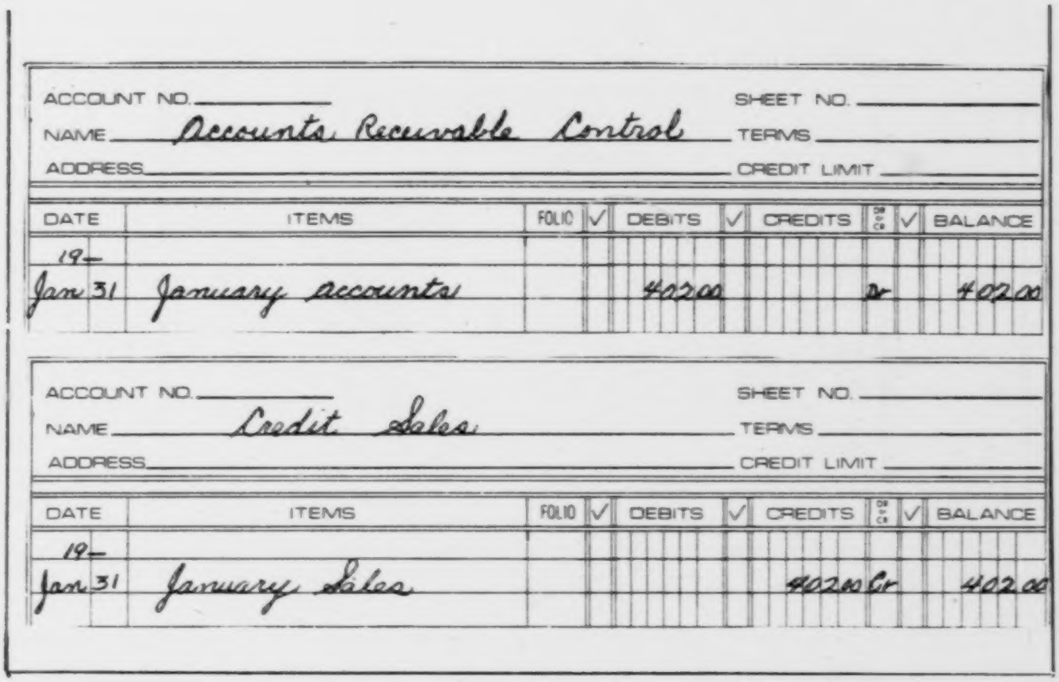
DATE	DESCRIPTION	CREDIT SALES (CR.)	SALES TAX (CR.)	ACC/REC. (DR.)	
19-					
Jan. 4.	John Shaw	23 00		23 00	✓
Jan. 4.	George Norman	41 00		41 00	✓
Jan. 4.	Bob Bell	10 51		10 51	✓
Jan. 5.	C. S. O'Neil	82 00		82 00	✓
Jan 8.	Bob Bell	6 49		6 49	✓
Jan 13.	C. S. O'Neil	10 00		10 00	✓
Jan. 13.	John Shaw	32 00		32 00	✓
Jan. 15.	Mary Lee	17 75		17 75	✓
Jan. 20	Mathew Jones	63 25		63 25	✓
Jan. 20	John Shaw.	12 00		12 00	✓
Jan. 20	George Norman.	24 00		24 00	✓
Jan. 27	Sonny Mann	27 00		27 00	✓
Jan. 27	Bob Bell	20 00		20 00	✓
Jan. 30	Mary Lee	18 00		18 00	✓
Jan. 31	C. S. O'Neil	15 00		15 00	✓
		402 00	-0-	402 00	
Jan. 31	Dr. Acc./Rec.	402 00			
Jan. 31	Cr. Credit Sales		402 00		

Joe's General Journal entry for January's credit sales and accounts receivable would look as shown below:



Jan. 31	Accounts Receivable Control	402 00		
Jan. 31	Credit Sales		402 00	

After making the above General Journal entry, Joe would post the General Ledger accounts: accounts receivable control and credit sales.



ACCOUNT NO. ____________ SHEET NO. ____________
NAME Accounts Receivable Control TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE	ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR. CR.	✓	BALANCE
19—									
Jan 31	January accounts			402 00			Dr		402 00

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Credit Sales TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE	ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR. CR.	✓	BALANCE
19—									
Jan 31	January Sales					402 00	Cr		402 00

14. Ask the students how they could determine if the information in the Accounts Receivable Ledger balances with that entered into the General Ledger. Discuss.

15. Read Section 6 of the Readings. Discuss.

6. The Accounts Receivable Summary

At the end of each month, a summary of the balances of the customers' accounts in the Accounts Receivable Ledger is prepared. The total of this summary must agree with the balance of the accounts receivable control in the General Ledger.

ACCOUNTS RECEIVABLE SUMMARY

January 31, 19__

Bob Bell	$ 37.00
Mathew Jones	63.25
Sonny Mann	27.00
George Norman	65.00
C. E. O'Neill	107.00
John Shaw	67.00
Mary Tee	35.75
TOTAL	$ 402.00

16. Read Section 7 of the Readings.

7. Summary

Only credit (charge) sales are recorded in the Sales Journal. Each credit sale is recorded into the individual customer's account which is in a separate ledger called the Accounts Receivable Ledger. (The credit sales should be posted daily to the Accounts Receivable Ledger).

At the end of the accounting period the totals of the Sales Journal are posted to the General Ledger accounts: credit sales and accounts receivable control. The total of the credit sales column is credited to the credit sales account; the total of the accounts receivable column is debited to the accounts receivable control account.

Accounts receivable records are very important. By having good records you can tell how much money you have out in credit. You can also tell how good a customer's credit rating is. If the customer is slow paying or doesn't pay his account at all, you can use your records of his account to show him why you have to cut him off credit or have to put more restrictions on giving him credit. Remember credit is money that people owe you. If credit customers don't pay you what they owe, you are going to have trouble paying your own bills. A good set of records will help you keep track of money owed to you so that you can look after your business better.

FAB16

Indicator:

17. Hand out Case FAB16-1, "Credit Sales".

18. Read the case and instruct the students to set up the necessary books, etc. required to record the credit sales for the month of August. After recording the Sales Journal, Accounts Receivable Control Ledger and General Ledger, have them prepare a Summary of Accounts Receivable for the month of August.

FAB16

SALES JOURNAL PAGE 1

DATE		DESCRIPTION	CREDIT SALES (CR)	SALES TAX (CR)	ACC/REC (DR)
19__					
Aug.	1	William Rat	3 84		3 84
	1	Abe Miller	3 31		3 31
	1	Herman Williams	10 32		10 32
	3	Allen John	3 83		3 83
	5	Jack Mason	2 05		2 05
	5	Herman Williams	2 34		2 34
	5	Bill John	4 48		4 48
	10	Mary Sue	5 37		5 37
	13	Allen John	13 78		13 78
	13	Bob Matson	25 54		25 54
	15	Mary Sue	13 03		13 03
	15	Jack Mason	5 07		5 07
	15	Connie Mack	7 93		7 93
	16	Bill John	12 14		12 14
	19	William Rat	7 91		7 91
	25	Jason King	2 76		2 76
	28	Herman Williams	61 97		61 97
	28	Jason King	10 32		10 32
	29	Abe Miller	44 05		44 05
	29	Connie Mack	27 09		27 09
	30	William Rat	23 68		23 68
			290 81		290 81
Aug	31	Dr Acc/Rec	290 81		
	31	Cr Credit Sales		290 81	

SHEET No.

ACCOUNT No.

TERMS N30 NAME Allen John

CREDIT LIMIT 75.00 ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR. OR CR.	V	BALANCE
19 —										
Aug	3	Charge	51		3 83			Dr		3 83
	13	Charge	51		13 78			Dr		17 61

FAB16

SHEET No. ____________ ACCOUNT No. ____________

TERMS N30 NAME Bill John

CREDIT LIMIT 75⁰⁰ ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR OR CR	✓	BALANCE
19	–									
Aug	5	Charge	51		4 48			Dr		4 48
	16	Charge	51		12 14			Dr		16 62

SHEET No.
ACCOUNT No.
TERMS N30 NAME Jason King
CREDIT LIMIT 75.00 ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR OR CR	V	BALANCE
19	–									
Aug	25	Charge	S1		2 76			Dr		2 76
	28	Charge	S1		10 32			Dr		13 08

SHEET No.
ACCOUNT No.
TERMS N30 NAME Connie Mack
CREDIT LIMIT 75⁰⁰ ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR. CR.	V	BALANCE
19	—									
Aug	15	Charge	51		7 93			Dr		7 93
	29	Charge	51		27 09			Dr		35 02

FAB16

SHEET No.

ACCOUNT No.

TERMS N30 NAME Jack Mason

CREDIT LIMIT 75.00 ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR. OR CR.	✓	BALANCE
19	–									
Aug	5	Charge	21		2 05			Dr		2 05
	15	Charge	21		5 07			Dr		7 12

SHEET No.
ACCOUNT No.
TERMS N30 NAME Bob Motors
CREDIT LIMIT 75.00 ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR OR CR	V	BALANCE
19	–									
Aug	13	Charge	S1		25 54			Dr		25 54

FAB16

SHEET No.______ ACCOUNT No.______

TERMS N30 NAME Abe Miller

CREDIT LIMIT 75 00 ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR OR CR	✓	BALANCE
19	–									
Aug	1	Charge	51		3 31			Dr		3 31
	29	Charge	51		44 05			Dr		47 36

FAB16

SHEET No.

ACCOUNT No.

TERMS N30

NAME William Rat

CREDIT LIMIT 75⁰⁰

ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR. OR CR.	V	BALANCE
19	–									
Aug	1	Charge	51		3 84			Dr		3 84
	19	Charge	51		7 91			Dr		11 75
	30	Charge	51		23 68			Dr		35 43

FAB16

SHEET No. ______ ACCOUNT No. ______

TERMS N30 NAME Mary Sue

CREDIT LIMIT 75.00 ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR OR CR	V	BALANCE
19	–									
Aug	10	Charge	51		5 37			Dr		5 37
	15	Charge	51		13 03			Dr		18 40

FAB16

SHEET NO.______ ACCOUNT NO.______

TERMS N30 NAME Herman Williams

CREDIT LIMIT 75^{00} ADDRESS Middle Rapids

DATE		ITEMS	FOLIO	V	DEBITS	V	CREDITS	DR OR CR	V	BALANCE
19	-									
Aug	1	Charge	S1		10 32			Dr		10 32
	5	Charge	S1		2 34			Dr		12 66
	28	Charge	S1		61 97			Dr		74 63

FAB16

General Journal Entry.

Aug 31	Accounts Receivable	6	290 81	
31	Credit Sales	42		290 81

General Ledger Accounts.

SHEET No. 6
ACCOUNT No.
TERMS
NAME Accounts Receivable Control
CREDIT LIMIT
ADDRESS

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR. OR CR.	✓	BALANCE
19 –										
Aug	31	Charge Sales	51		290 81			Dr		290 81

SHEET No. 42
ACCOUNT No.
TERMS
NAME Credit Sales
CREDIT LIMIT
ADDRESS

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR. OR CR.	✓	BALANCE
19 –										
Aug	31						290 81	Cr		290 81

FAB16

ACCOUNTS RECEIVABLE SUMMARY

August 31, 19

Allen John	$ 17.61
Bill John	16.62
Jason King	13.08
Connie Mack	35.02
Jack Mason	7.12
Bob Matson	25.54
Abe Miller	47.36
William Rat	35.43
Mary Sue	18.40
Herman Williams	74.63
TOTAL	$290.81

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB16 RECORDING CREDIT SALES

CASE FAB16 - 1

CREDIT SALES

Bill Duran had been approached by some of his customers about the chance of their buying on credit. Bill was troubled because he knew that credit could give trouble in a small store just as easily as in a large store. Bill felt that many of the people who had asked for credit would be good customers, and if he didn't allow some credit they might buy most of their goods elsewhere. Bill decided to give out some credit but only to those who would agree to the guidelines he wanted. These guidelines were:

1. A credit limit of $75.00 for all customers.
2. The bill had to be paid off by the end of 30 days.
3. Only those customers who had an assured source of money would get credit.

While these guidelines were fairly general, they gave him some basis for saying yes or no to a request for credit.

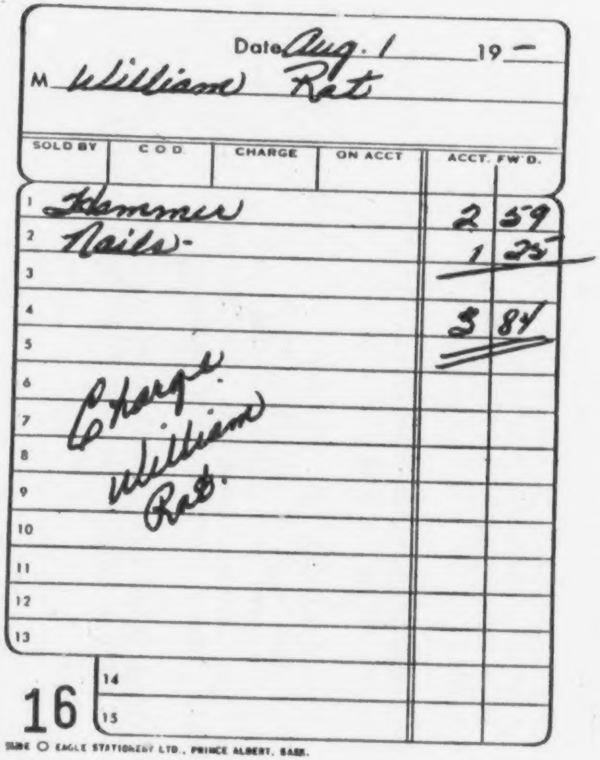
When a credit sale was made Bill wrote it out on a sales slip, had the customer sign it and then he put the sales slip into a box. Although he had a record of all his credit sales for the month he didn't know how much each customer owed him. He had to straighten the confusion fairly quickly before the customers began paying off their bills.

Bill asked his friend to set up a system he can use to keep track of his credit sales. He gave him the following sales slips.

INSTRUCTION

1. Suppose you are Bill's friend; set up a system for keeping track of how much each customer owed.

FAB16



Date Aug. 1 19—

M William Rat

SOLD BY	C O D.	CHARGE	ON ACCT.	ACCT. FW'D.

		ACCT. FW'D.
1	Hammer	2 59
2	Nails-	1 25
3		
4		3 84

Charge William Rat.

16

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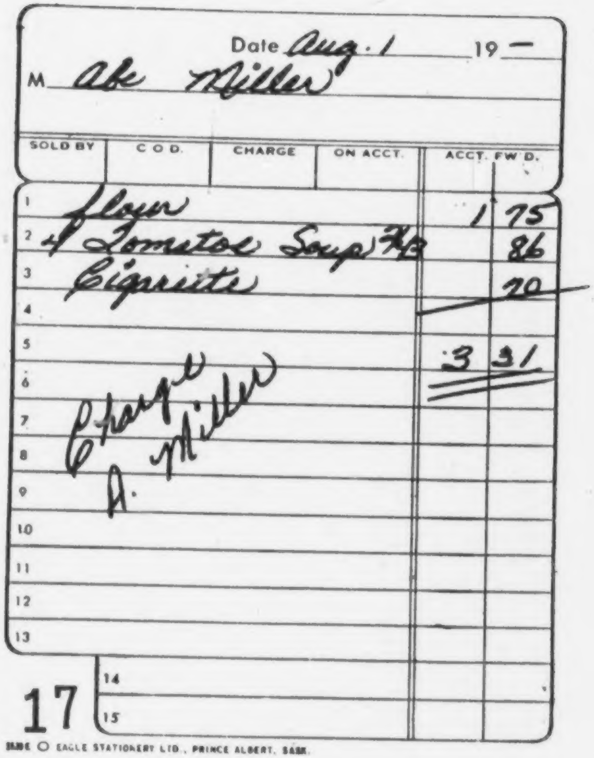

Date Aug. 1 19—

M Abe Miller

SOLD BY	C O D.	CHARGE	ON ACCT.	ACCT. FW'D.

		ACCT. FW'D.
1	flour	1 75
2	4 Tomatoe Soup 2/43	86
3	Cigarette	70
4		
5		3 31

Charge A. Miller

17

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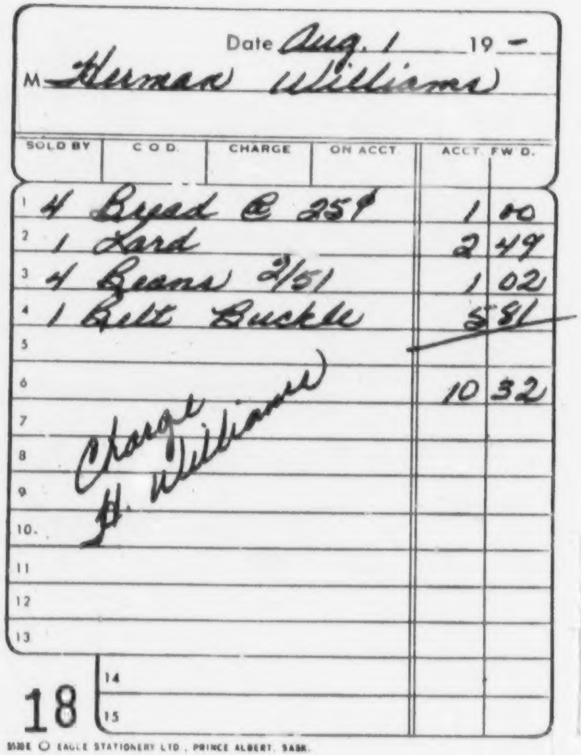
FAB16



Date Aug. 1 19 –

M Herman Williams

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.	
1	4 Bread @ 25¢			1	00
2	1 Lard			2	49
3	4 Beans 2/51			1	02
4	1 Belt Buckle			5	81
5					
6				10	32
7	Charge				
8	H. Williams				
9					
10.					
11					
12					
13					
14					
15					

18

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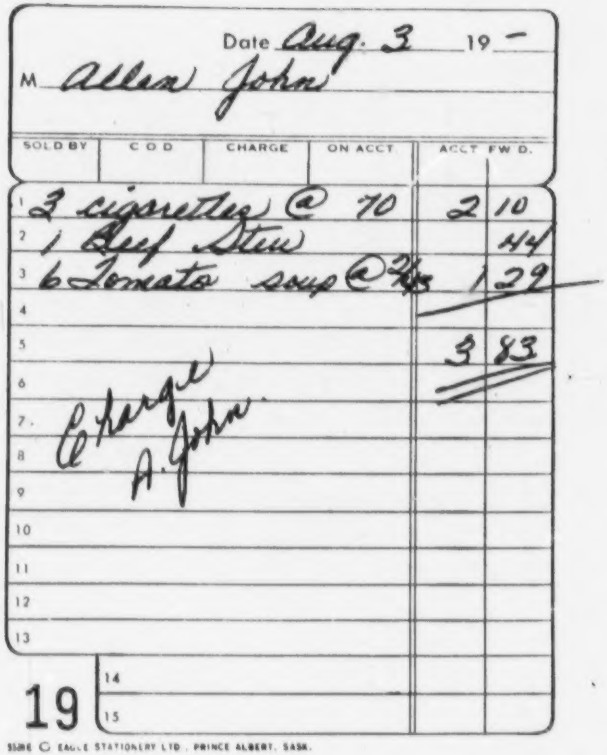

Date Aug. 3 19 –

M Allan John

SOLD BY	C O D	CHARGE	ON ACCT.	ACCT. FW'D.	
1	3 cigarettes @ 70			2	10
2	1 Beef Stew				44
3	6 Tomato soup @ 2/43			1	29
4					
5				3	83
6					
7.	Charge				
8	A. John				
9					
10					
11					
12					
13					
14					
15					

19

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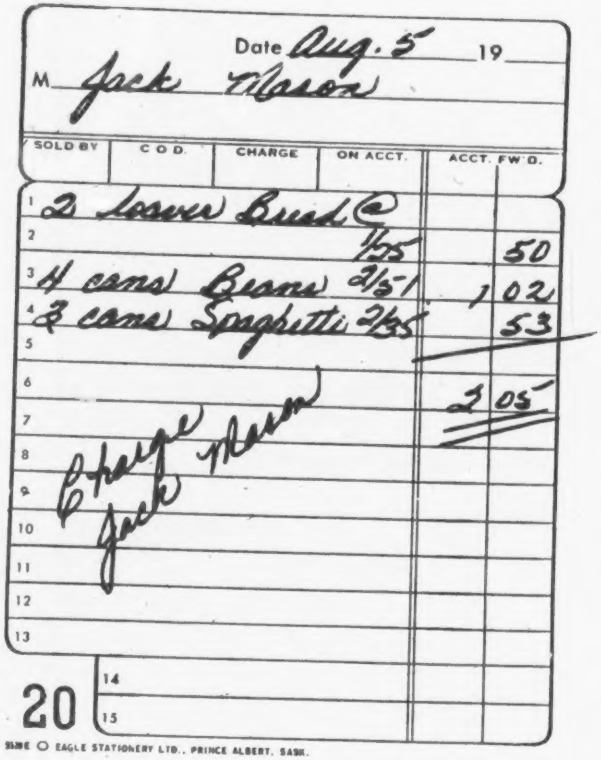
CASE

FAB16



Date Aug. 5 19

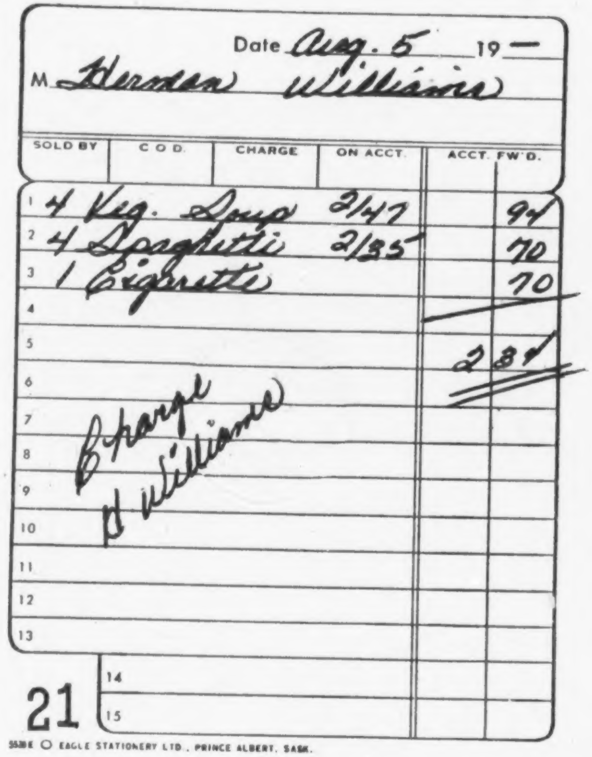
M Jack Mason

SOLD BY	C O D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	2 loaves Bread @		
2		1/25	50
3	4 cans Beans	2/51	1 02
4	2 cans Spaghetti	2/35	53
5			
6			
7			2 05
8	Charge		
9	Jack Mason		
10			
11			
12			
13			
14			
15			

20

55BE ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK.



Date Aug. 5 19—

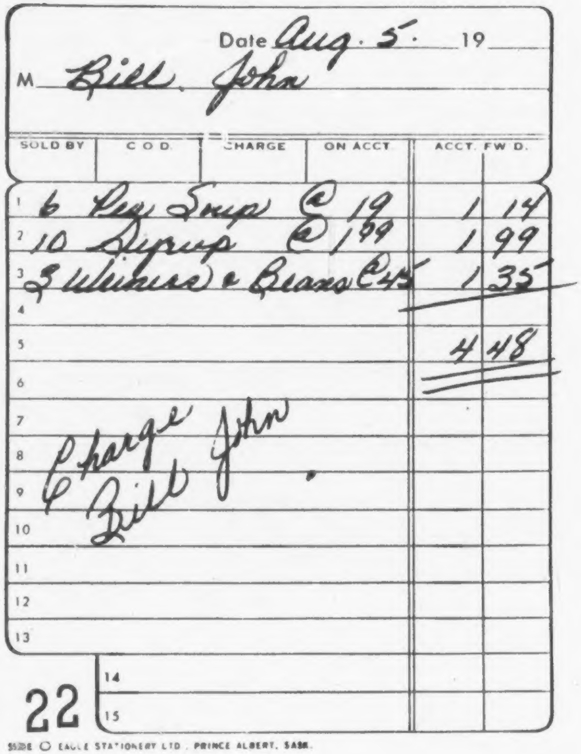
M Herman Williams

SOLD BY	C O D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	4 Veg. Soup	2/47	94
2	4 Spaghetti	2/35	70
3	1 Cigarette		70
4			
5			
6			2 34
7	Charge		
8	H Williams		
9			
10			
11			
12			
13			
14			
15			

21

55BE ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK.



Date Aug. 5. 19

M Bill. John

SOLD BY	C.O.D.	CHARGE	ON ACCT	ACCT. FWD.

1	6 Pea Soup @ 19	1 14
2	10 Syrup @ 1 99	1 99
3	3 Wieners & Beans @ 45	1 35
4		
5		4 48
6		
7		
8	Charge	
9	Bill John	
10		
11		
12		
13		
14		
15		

22

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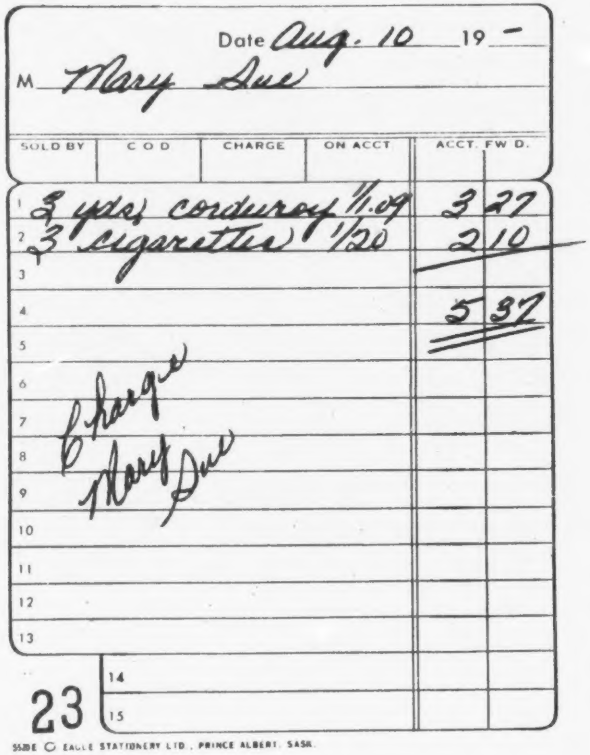

Date Aug. 10 19 –

M Mary Sue

SOLD BY	C.O.D.	CHARGE	ON ACCT	ACCT. FWD.

1	3 yds. corduroy 1.09	3 27
2	3 cigarettes 1.20	2 10
3		
4		5 37
5		
6		
7	Charge	
8	Mary Sue	
9		
10		
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23

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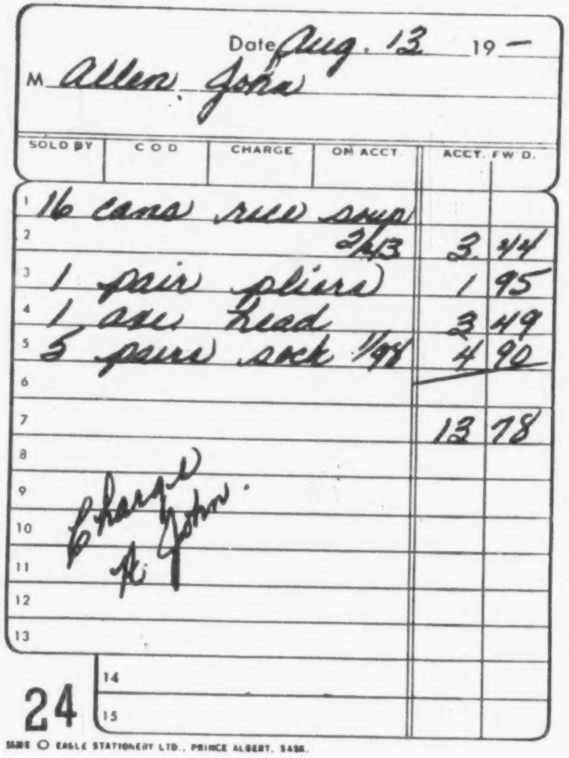
CASE

FAB16



Date Aug. 13 19—

M Allen, John

SOLD BY	C O D	CHARGE	ON ACCT.	ACCT. FW'D.

		ACCT.	FW'D.
1	16 cans rice soup		
2	2/43	3	44
3	1 pair pliers	1	95
4	1 axe head	3	49
5	5 pairs sock 1/98	4	90
6			
7		13	78
8			
9	Charge		
10	A. John.		
11			
12			
13			
14			
15			

24

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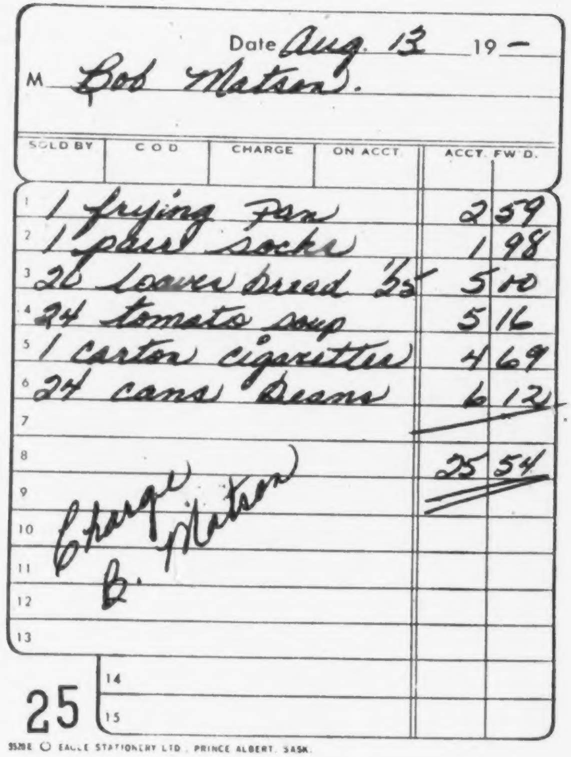

Date Aug. 13 19—

M Bob Matson.

SOLD BY	C O D	CHARGE	ON ACCT.	ACCT. FW'D.

		ACCT.	FW'D.
1	1 frying pan	2	59
2	1 pair socks	1	98
3	20 loaves bread 1/25	5	00
4	24 tomato soup	5	16
5	1 carton cigarettes	4	69
6	24 cans beans	6	12
7			
8		25	54
9	Charge		
10	B. Matson		
11			
12			
13			
14			
15			

25

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Date Aug. 15 19—

M Mary Sue

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	10 Tomato Soup 2/43	2	15
2	6 Peas 2/49	1	47
3	1 Carton Cigarettes	4	69
4	8 yds Flannelette	4	72
5			
6	Charge	13	03
7			
8			
9	Mary Sue		
10			
11			
12			
13			
14			
15			

10

SSDE SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK.

Date Aug. 15 19—

M Jack Mason

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

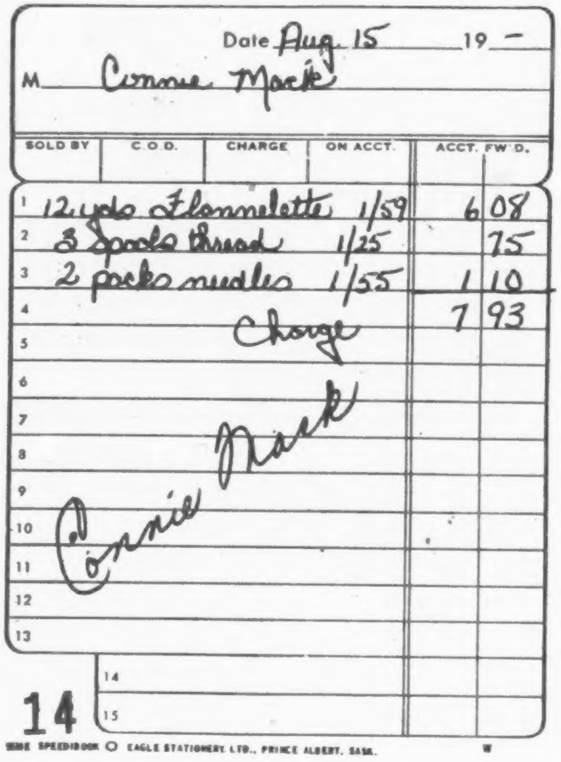
1	5 lbs. Syrup		99
2	6 Beef Stew 1/44	2	64
3	7 Soup 2/41	1	44
4			
5	Charge	5	07
6			
7			
8			
9	Jack Mason		
10			
11			
12			
13			
14			
15			

12

SSDE SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK.

CASE

FAB16



Date Aug. 15 19 —

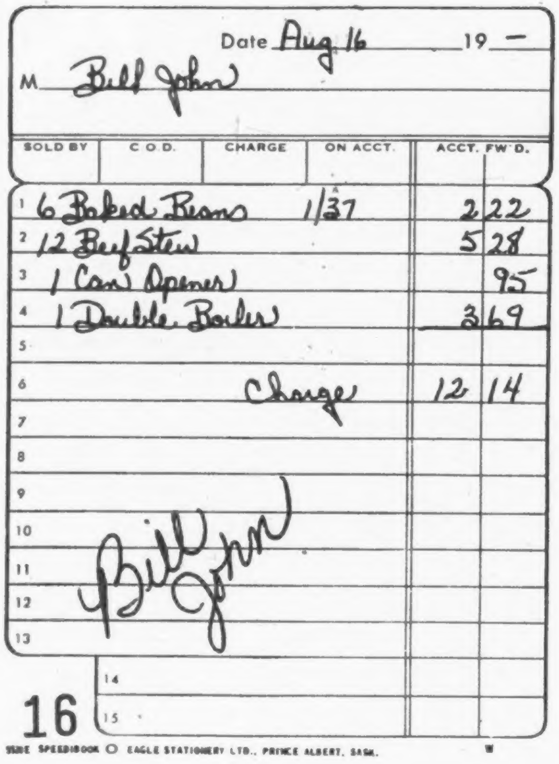
M Connie Mack

	SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.	
1	12 yds Flannelette			1/59	6	08
2	3 Spools thread			1/25		75
3	2 packs needles			1/55	1	10
4					7	93
5			Charge			
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						

Connie Mack

14

5302 SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK. W



Date Aug. 16 19 —

M Bill John

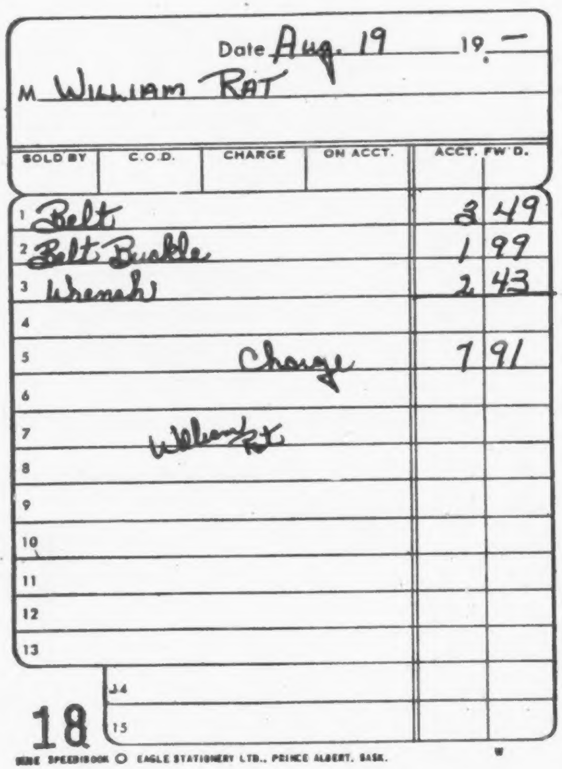
	SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.	
1	6 Baked Beans			1/37	2	22
2	12 Beef Stew				5	28
3	1 Can Opener					95
4	1 Double Boiler				3	69
5						
6			Charge		12	14
7						
8						
9						
10						
11						
12						
13						
14						
15						

Bill John

16

5302 SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK. W

FAB16



Date Aug. 19 19 —

M William Rat

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.	

1	Belt	3	49
2	Belt Buckle	1	99
3	Wrench	2	43
4			
5	Charge	7	91
6			
7	William Rat		
8			
9			
10			
11			
12			
13			
14			
15			

18

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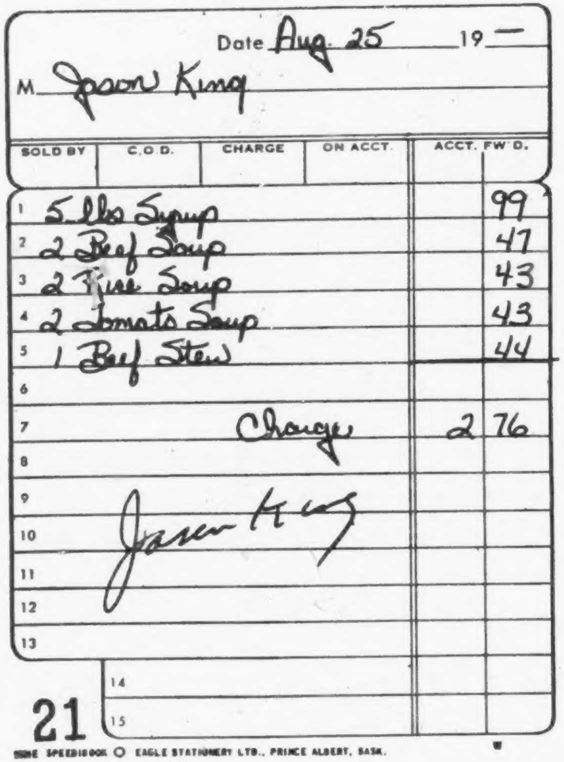

Date Aug. 25 19 —

M Jason King

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.	

1	5 lbs Syrup		99
2	2 Beef Soup		47
3	2 Rice Soup		43
4	2 Tomato Soup		43
5	1 Beef Stew		44
6			
7	Charge	2	76
8			
9			
10	Jason King		
11			
12			
13			
14			
15			

21

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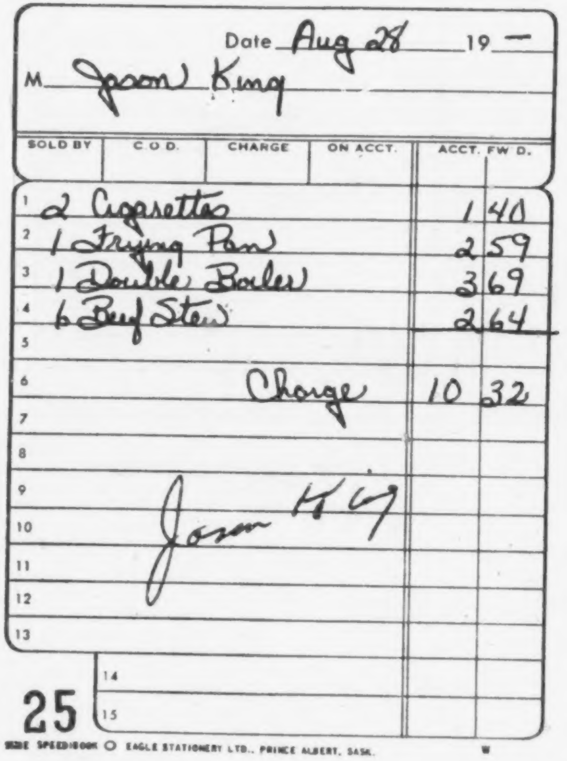
CASE

FAB16



Date Aug 28 19 —

M Jason King

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	2 Cigarettes	1 40
2	1 Frying Pan	2 59
3	1 Double Boiler	3 69
4	6 Beef Stew	2 64
5		
6	Charge	10 32
7		
8		
9	Jason King	
10		
11		
12		
13		
14		
15		

25

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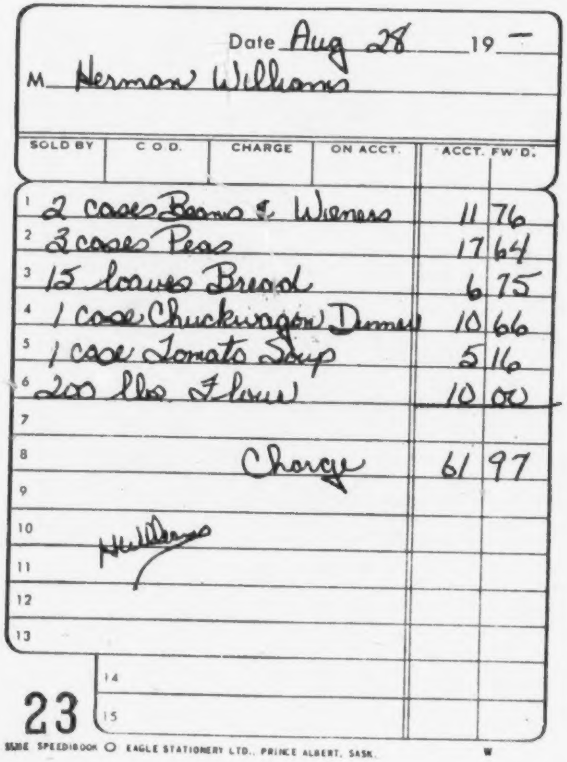
W



Date Aug 28 19 —

M Herman Williams

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	2 cases Beans & Wieners	11 76
2	3 cases Peas	17 64
3	15 loaves Bread	6 75
4	1 case Chuckwagon Dinner	10 66
5	1 case Tomato Soup	5 16
6	200 lbs. Flour	10 00
7		
8	Charge	61 97
9		
10	Williams	
11		
12		
13		
14		
15		

23

5520E SPEEDIBOOK EAGLE STATIONERY LTD., PRINCE ALBERT, SASK.

W

FAB16

Date Aug 29 19 —

M Abe Miller

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	3 cases soup	16	92
2	10 loaves Bread	2	50
3	3 cartons Cigarettes	14	07
4	1 case Beef Stew	10	56
5			
6	Charge	44	05
7			
8	Abe Miller		
9			
10			
11			
12			
13			
14			
15			

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WIDE SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK. W

Date Aug 29 19 —

M Connie Mack

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FW'D.

1	10 lbs Syrup	1	99
2	1 case Soup	5	64
3	1 case Spaghetti	4	20
4	2 cartons Cigarettes	9	38
5	1 case Peas	5	88
6			
7	Charge	27	09
8			
9	Connie Mack		
10			
11			
12			
13			
14			
15			

33

WIDE SPEEDIBOOK ○ EAGLE STATIONERY LTD., PRINCE ALBERT, SASK. W

CASE

FAB16

Date Aug. 30 19 —

M William Rat

SOLD BY	C.O.D.	CHARGE	ON ACCT.	ACCT. FWD.	

1	Flour	1	75
2	10 lbs Syrup	1	99
3	2 cartons Cigarettes	9	38
4	1 case Beef Stew	10	56
5			
6		23	68
7			
8			
9			
10			
11			
12			
13			
14			
15			

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SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB17 RECORDING CASH RECEIPTS

INSTRUCTOR'S GUIDE

OVERVIEW

The Cash Receipts Journal is designed to record receipts of cash from all sources. Sales and accounts receivable are usual sources of cash receipts and occur with sufficient regularity to warrant special credit columns in the Cash Receipts Journal. Sales tax (to be discussed in lesson FAB18, "Sales Tax", also occurs with enough regularity to warrant a special credit column. As many other credit columns as needed may be added. A miscellaneous or sundry column should be included to provide for any miscellaneous sources of funds (any sources which do not occur with any amount of regularity). A debit cash column is necessary in order to complete the debit/credit equation.

The items in the miscellaneous and accounts receivable columns are posted as they are recorded.

The total of the cash sales, sales tax, accounts receivable, and cash columns are posted to the appropriate accounts at the end of the accounting period. The total of the miscellaneous column does not have to be posted at this time because each item in it has been posted when journalized.

The Cash Receipts Journal allows the manager to concentrate all cash receipts into one book.

OBJECTIVE

Given information about various cash receipt transactions, the students will correctly record this information into a Cash Receipts Journal.

FAB17

RESOURCES REQUIRED

1. Exercise FAB17-1, "Payments on Account"
2. Case FAB17-1, "Bill Duran's Cash Receipts"
3. Ledger sheets
4. Cash Receipts Journal paper (multi-column pages)

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to set up and use a special Journal in which is recorded all the cash receipts of the business.

INTRODUCTION

Cash is necessary to keep a business operating. Cash includes both currency and bank deposits. Without cash, a business operation will soon come to a stop; therefore, it is of vital interest to the businessman to know where the cash is coming from. The cash receipts of a business are recorded in a special Journal called a Cash Receipts Journal.

2. Possible discussion points: In lesson FAB14, "Recording Your Purchases", the idea of using special Journals for certain types of transactions was first introduced. So far, the student has set up and used two special Journals, the Accounts Payable Journal and the Accounts Receivable Journal. The student is now introduced to two ~~Journals~~ that are used for cash transactions. In this lesson he uses a Cash Receipts Journal; in FAB19 he uses a Cash Payments Journal. These cash Journals are useful in that they show from where cash was received and to where cash was paid, and they are used as a control tool when balancing cash held by the business. It should be pointed out that the term cash refers to both bank deposits and currency. While the accounting system used to date deals only with currency, the principals of bookkeeping apply to bank deposits in the same manner. (Deposits will be discussed starting in lesson FAB21.)

OBJECTIVE: GIVEN INFORMATION ABOUT VARIOUS CASH RECEIPT TRANSACTIONS, THE STUDENTS WILL CORRECTLY RECORD THIS INFORMATION INTO A CASH RECEIPTS JOURNAL.

Stimulus

3. Ask the students what sources of cash there are in a business.

Clarify Problem

4. List the students' answers on a flip chart. Some sources they may mention are:

   a. Cash sales
   b. Payments on account
   c. Loans
   d. Additional investment by owners
   e. Sale of used assets.

5. Ask the students if they feel it would be useful to have a record of the cash receipts of the business. Discuss. Points to bring out in the discussion:

   a. It is important for the manager to calculate his total sales for a stated accounting period. In order to do this, he must know the total cash sales and the total credit sales for that period.

   b. For planning purposes, the manager must be aware of past sources of cash in order to project figures for future periods.

   c. The manager must be aware of who has paid on accounts receivable and the amounts paid.

   d. A record of cash receipts is extremely helpful in controlling the amount of cash on hand (determining if the proper amount is actually held by the business).

Provide Information

6. Ask: "If a record of cash receipts is required, how is one to be set up?" Discuss.

7. Read Section 1 of the Readings.

CONTENT

1. The Cash Receipts Journal

   A special Journal in which all cash receipts of the business are recorded is called the Cash Receipts Journal.

This Journal describes the sources from which the cash was received. The amount of description (through the use of specific columns) depends upon the business concerned. A Cash Receipts Journal that is common to many types of businesses is:

Cash Receipts Journal   Page 1

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC. (CR)	MISC (CR)	CASH (DR)	(✓)

a. Description of the Columns

(1) Date: The date the cash is received is recorded in this column.

(2) Description: The account which is to be credited with the cash.

(3) Cash Sales: Money received from the sale of merchandise.

(4) Sales Tax: Sales tax collected on cash sales.

(5) Accounts Receivable (Acc/Rec): The amount received as payment on account.

(6) Miscellaneous (Misc): The amount to be credited to any account except sales or acc/rec.

(7) Cash: As this is a Cash Receipts Journal the cash account is the account that is receiving all the debit entries that are required to complete each transaction (as specified by the debit/credit rule). At the end of the accounting period the total of all the credit columns is used as the debit entry for cash.

8. Hand out the pages for the Cash Receipts Journal. Read Section 2 of the Readings. Illustrate the example in the Readings on the flip chart. In order to clarify procedure, it might be necessary to use additional examples.

2. Recording in the Cash Receipts Journal

The first entry to be put into the Cash Receipts Journal is the figure showing the amount of cash on hand at the beginning of the period. As this figure is already in the General Ledger, it is entered only as a memorandum in the Description column and not in a money column.

Cash Receipts Journal   Page 1

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC (CR)	MISC (CR)	CASH (DR).	✓
19-							
Jan 4	Balance 769.25						

Thereafter, each transaction involving cash receipts is recorded in chronological order. The account being credited is written in the description column, and the amount of the credit is written in the appropriate amount column.

a. If the money is received from the sale of merchandise, the amount credited is written in the sales column.

b. If the money is received as a payment on an account receivable, the amount is written in the acc/rec column and the name of the account receivable account to be credited is written in the description column.

c. If the money is received for a purpose other than a sale of merchandise or as payment on account, the amount is written in the misc. column and the account to be credited is written in the description column.

Examples:

a. Cash Sales for January 4 were $109.00
b. Received $12.00 on account from John Shaw
c. Put an additional $100.00 of own money into the business.

Cash Receipts Journal Page 1

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC (CR)	MISC (CR)	CASH (DR)	(✓)
19							
Jan 4	Balance 769.25						
Jan 4	Sales	109 00				109 00	
	John Shaw Acc/Rec			12 00		12 00	
	Net Worth				100 00	100 00	

During January 4, the business had received $221.00 in cash receipts. The cash on hand should be ($221.00 + $769.25) = $990.25.

9. Read Section 3 of the Readings.

3. Posting the Cash Receipts Journal

Each amount in the miscellaneous column of the Cash Receipts Journal is posted to the credit of the account named in the description column.

Likewise, each amount in the accounts receivable column is posted to the credit of the customer's account named in the acc/rec column; these accounts are found in the Accounts Receivable Ledger. A check mark (✓) is placed in the column headed (✓) to indicate that the amount has been posted. Posting to the Accounts Receivable Ledger must be done daily. The items in the misc. column should also be posted daily.

At the end of each accounting period, the Cash Receipts Journal is totalled and summarized. Each of the columns is totalled and the total written at the bottom of each column.

The total of the acc/rec column is posted to the accounts receivable control account. The total of the cash sales column is posted to the cash sales account. The total of the sales tax column is posted to the sales tax account. As the items in the misc. column have been posted daily there is no need to post the total of this column. The total of the cash column is posted to the cash account in the General Ledger.

Cash Receipts Journal Page 1.

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC (CR)	MISC. (CR)	CASH (DR)	✓
19-							
Jan 4	Balance 769 25						
Jan. 4	Sales	109 00				109 00	✓
Jan 4	John Shaw Acc/Rec			12 00		12 00	✓
Jan 4	Net worth				100 00	100 00	✓
		109 00	—	12 00	100 00	221 00	
	Cash	221 00					
	Cash Sales		109 00				
	Acc / Rec Control		12 00				
	Misc		100 00				
		221 00	221 00				

10. In the Readings, it is mentioned that the transactions involving Accounts Receivable should be posted daily. In order to illustrate how the transactions are recorded in the Accounts Receivable Ledger, put the following example on the flip chart:

Example

Customer: J. Blackstone
Credit Limit: $100.00

Credit Sales

Sept.	21	15.61
	23	11.79
	26	61.79

Payments on Account

Sept.	25	15.00
	31	74.19

FAB17

ACCOUNT NO.
SHEET NO.
NAME J. Blackstone
TERMS
ADDRESS
CREDIT LIMIT $100.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Sept	21	Charge			15 61			Dr		15 61
	23	Charge			11 79			Dr		27 40
	25	Payment					15 00	Dr		12 40
	26	Charge			61 79			Dr		74 19
	31	Payment					74 19			-0-

11. Hand out Exercise FAB17-1, "Payments on Account", and ledger sheet to the students. Instruct the students to record the transactions in the exercise.

ACCOUNT NO.
SHEET NO.
NAME Jacob John
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Oct	10	Balance						Dr		20 21
	12	Charge			12 10			Dr		32 31
	14	Charge			3 29			Dr		35 60
	15	Charge			6 47			Dr		42 07
	18	Received on Account					25 00	Dr		17 07
	19	Charge			18 40			Dr		35 47
	25	Charge			7 25			Dr		42 72
	28	Charge			14 72			Dr		57 44
	30	Charge			6 12			Dr		63 56
	31	Received on Account					63 56			-0-

12. Read Section 4 of the Readings and discuss.

4. Summary

All cash receipts, and only cash receipts, are recorded in the Cash Receipts Journal.

The total amount of cash received is entered in the debit column of the cash account.

Amounts entered in the accounts receivable column are posted daily to the credit of the customers' accounts in the Accounts Receivable Ledger. The total of the accounts receivable column is posted to the credit of the accounts receivable control account in the General Ledger.

Indicator

13. Hand out Case FAB17-1, "Bill Duran's Cash Receipts". Instruct the students to set up all the necessary records to record the cash receipts, and to post all the necessary accounts. After they have completed the posting, ask the following questions:

   a. How much was received from Cash Sales during the accounting period?

   b. How much were the total sales for the period?

   NOTE: The students will need information from Case FAB16-1 to answer questions b. and c.

   c. What is the balance of the Accounts Receivable Ledger for the accounting period?

CASH RECEIPTS JOURNAL

PAGE 1

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC (CR)	MISC. (CR)	CASH (DR)	
19-	Balance $3,303.02						
Aug 1	Sales	155 21				155 21	✓
2	Sales	123 36				123 36	✓
3	Sales	186 14				186 14	✓
4	Sales	105 25				105 25	✓
5	Sales	147 98				147 98	✓
6	Sales	203 33				203 33	✓
6	Jack Mason			2 05		2 05	✓
8	Sales	106 16				106 16	✓
9	Sales	111 31				111 31	✓
10	Sales	131 05				131 05	✓
11	Sales	162 98				162 98	✓
12	Sales	98 98				98 98	✓
13	Sales	141 34				141 34	✓
15	Sales	188 66				188 66	✓
15	Herman Williams			10 00		10 00	✓
16	Sales	116 47				116 47	✓
17	Sales	216 77				216 77	✓
18	Sales	198 98				198 98	✓
19	Sales	134 05				134 05	✓
20	Sales	143 67				143 67	✓
22	Sales	162 17				162 17	✓
23	Sales	166 82				166 82	✓
24	Sales	147 38				147 38	✓
		3,148 06		12 05		3,160 11	

PAGE 2

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC (CR)	MISC. (CR)	CASH (DR)	
	Balance	3148 06		12 05		3160 11	
Aug 25	Sales	99 28				99 28	✓
25	William Rat			11 75		11 75	✓
26	Sales	136 83				136 83	✓
27	Sales	177 76				177 76	✓
28	Allen John			17 61		17 61	✓
29	Sales	165 50				165 50	✓
30	Sales	155 71				155 71	✓
30	Jason King			13 08		13 08	✓
31	Sales	121 44				121 44	✓
31	Herman Williams			50 00		50 00	✓
		4004 58		104 49		4109 07	
31	Cash	4109 07					
31	Sales		4004 58				
31	Acc/Rec Control		104 49				

FAB17

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Allen John TERMS N30
ADDRESS Middle Rapids CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	3	Charge	S1		3 83			Dr		3 83
	13	Charge	S1		13 78			Dr		17 61
	28	Payment	CR1				17 61			–0–

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Bill John TERMS N30
ADDRESS Middle Rapids CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	5	Charge	S1		4 48			Dr		4 48
	16	Charge	S1		12 14			Dr		16 62

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Jason King TERMS N30
ADDRESS Middle Rapids CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	25	Charge	S1		2 76			Dr		2 76
	28	Charge	S1		10 32			Dr		13 08
	30	Payment	CR1				13 08			–0–

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Connie Mack TERMS N30
ADDRESS Middle Rapids CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	15	Charge	S1		7 93			Dr		7 93
	29	Charge	S1		27 09			Dr		35 02

FAB17

ACCOUNT NO.
SHEET NO.
NAME Jack Mason
TERMS N30
ADDRESS Middle Rapids
CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	5	Charge	S1		2 05			Dr		2 05
	6	Payment	CR1				2 05			⊖
	15	Charge	S1		5 07			Dr		5 07

ACCOUNT NO.
SHEET NO.
NAME Bob Matson
TERMS N30
ADDRESS Middle Rapids
CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	13	Charge	S1		25 54			Dr		25 54

ACCOUNT NO.
SHEET NO.
NAME Abe Miller
TERMS N30
ADDRESS Middle Rapids
CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	1	Charge	S1		3 31			Dr		3 31
	29	Charge	S1		44 05			Dr		47 36

ACCOUNT NO.
SHEET NO.
NAME William Rat
TERMS N30
ADDRESS Middle Rapids
CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	1	Charge	S1		3 84			Dr		3 84
	19	Charge	S1		7 91			Dr		11 75
	25	Payment	CR1				11 75			⊖
	30	Charge	S1		23 68			Dr		23 68

FAB17

ACCOUNT NO. ____________
NAME Mary Sue
ADDRESS Middle Rapids
SHEET NO. ____________
TERMS N30
CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	10	Charge	S1		5 37			Dr		5 37
	15	Charge	S1		13 03			Dr		18 40

ACCOUNT NO. ____________
NAME Herman Williams
ADDRESS Middle Rapids
SHEET NO. ____________
TERMS N30
CREDIT LIMIT $75.00

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	–									
Aug	1	Charge	S1		10 32			Dr		10 32
	5	Charge	S1		2 34			Dr		12 66
	15	Payment	CR1				10 00	Dr		2 66
	28	Charge	S1		61 97			Dr		64 63
	31	Payment	CR1				50 00	Dr		14 63

FAB17

Summary of Accounts Receivable
As of August 31, 19__

Bill John	$ 16.62
Connie Mack	35.02
Jack Mason	5.07
Bob Matson	25.54
Abe Miller	47.36
William Rat	23.68
Mary Sue	18.40
Herman Williams	14.63
Total	$186.32

Cash on Hand

Beginning Balance	$3,303.02
Receipts	4,109.07
On hand	$7,412.09

Cash Sales for month	$3,148.06
Credit Sales for month	290.81
Total Sales	$3,438.87

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB17 RECORDING CASH RECEIPTS

CASE FAB17 - 1

BILL DURAN'S CASH RECEIPTS

Bill Duran is interested in finding out how much cash the Middle Rapids Trading and General Store has taken in during the month of August. He also wants to up-date his Accounts Receivable Ledger by entering the payments on accounts received during the month. As Bill's friend has just finished setting up a Purchases Journal and Sales Journal, Bill asks him to set up the necessary books to record his cash receipts for the month. Bill brought along the following information for his friend to use when setting up the books and recording the transactions to date.

DATE	TOTAL CASH SALES
1	$155.21
2	123.36
3	186.14
4	105.25
5	147.98
6	203.33
8	106.16
9	111.31
10	131.05
11	162.98
12	98.98
13	141.34
15	188.66
16	116.47
17	216.77
18	198.98
19	134.05

FAB17

DATE	TOTAL CASH SALES
20	$143.67
22	162.17
23	166.82
24	147.38
25	99.28
26	136.83
27	177.76
29	165.50
30	155.71
31	121.44

The following amounts were received on account:

DATE	ACCOUNT	AMOUNT
August 28	Allen John	$17.61
August 6	Jack Mason	2.05
August 25	William Rat	11.75
August 15	Herman Williams	10.00
August 30	Jason King	13.08
August 31	Herman Williams	50.00

The Sales Journal appears on the following page.

INSTRUCTIONS

Once again put yourself in the position of Bill's friend.

1. Record the Cash Receipts information into a Cash Receipts Journal.
2. Using the above information and information from Sales Journal, post the Accounts Receivable Ledger.
3. Summarize and total the Cash Receipts Journal and post information to the proper General Ledger accounts.

FAB17

CASE

SALES JOURNAL

PAGE 1

DATE	DESCRIPTION	CREDIT SALES (CR)	SALES TAX (CR)	ACC/REC (DR)
19–				
Aug 1	William Rat	3 84		3 84
1	Abe Miller	3 31		3 31
1	Herman Williams	10 32		10 32
3	Allen John	3 83		3 83
5	Jack Mason	2 05		2 05
5	Herman Williams	2 34		2 34
5	Bill John	4 48		4 48
10	Mary Sue	5 37		5 37
13	Allen John	13 78		13 78
13	Bob Matson	25 54		25 54
15	Mary Sue	13 03		13 03
15	Jack Mason	5 07		5 07
15	Connie Mack	7 93		7 93
16	Bill John	12 14		12 14
19	William Rat	7 91		7 91
25	Jason King	2 76		2 76
28	Herman Williams	61 97		61 97
28	Jason King	10 32		10 32
29	Abe Miller	44 05		44 05
29	Connie Mack	27 09		27 09
30	William Rat	23 68		23 68
		290 81		290 81
Aug 31	Dr Acc/Rec	290 81		
31	Cr Credit Sales		290 81	

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB17 RECORDING CASH RECEIPTS

EXERCISE FAB17 - 1

PAYMENTS ON ACCOUNT

Suppose you own and operate a retail business. Jacob John is one of your credit customers. On October 10th he owed you $20.21. After October 10th he bought on credit and paid on his account as follows:

October 12	Charge	$12.10
October 14	Charge	3.29
October 15	Charge	6.47
October 18	Received on Account	25.00
October 19	Charge	18.40
October 25	Charge	7.25
October 28	Charge	14.72
October 30	Charge	6.12
October 31	Received on Account	63.56

INSTRUCTIONS

1. Record these transactions in the customer's individual account. This customer requested a credit limit of $100.00. If this month is an example of his business dealings, what credit limit would you give him?

SUBJECT FINANCE, ACCOUNTING AND BOOKKEEPING

LESSON FAB18 SALES TAX

INSTRUCTOR'S GUIDE

OVERVIEW

Most provinces in Canada have some form of sales tax. This lesson introduces the students to the sales tax; the goods it is paid on, who pays it, and how a businessman can keep records for it.

Most of the regulations dealt with in this lesson are with regard to the education and health tax applicable in the province of Saskatchewan, but the calculations and record-keeping functions can be applied to any sales tax used in other provinces. The percentage and the list of exempt goods might change, but the need to keep records and to remit collections would not change. Therefore, the purpose of this lesson is to help the students become competent in handling sales tax records. The instructor should obtain the necessary documents for his province and adapt the lesson accordingly.

OBJECTIVES

The students will be able to:

1. State what a sales tax is, who pays it, and who collects it.
2. Identify from a list of goods those which are taxable.
3. List the records needed for sales tax.
4. Correctly complete an application for a vendor's licence when given the necessary facts and figures.
5. Correctly calculate the sales tax payable on a given sales transaction.

6. Correctly complete a sales slip containing a sales tax calculation.
7. Correctly complete the necessary Journal entries and post them to the proper General Ledger account.
8. Correctly complete a Quarterly Return of Sales and Tax Collections form, given the necessary facts and figures.

RESOURCES REQUIRED

1. Exercise FAB18-1, "Taxable/Non-taxable Sales"
2. Projectual FAB6-1, "The Sales Slip"
3. Application for Vendor's Licence forms
4. 5% provincial sales tax tables
5. Quarterly Return of Sales and Tax Collection forms
6. Flip chart
7. Booklet, "The Education and Health Tax Act" or a similar explanatory booklet in other provinces. (one copy for each student)

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will be able to tell what Education and Health Tax is, who pays the Tax, how it is calculated and recorded, and how you can remit it to the government.

INTRODUCTION

If you are in a province that has a sales tax, you must know which of the items you sell are taxable and which are not. You must also know how and when you have to pay the sales tax. And finally, you must know how to keep track of the tax you collect.

FAB18

OBJECTIVE 1: THE STUDENTS WILL BE ABLE TO STATE WHAT A SALES TAX IS, WHO PAYS IT, AND WHO COLLECTS IT.

Stimulus

2. State: "Governments have to provide many different services to many different people. Since governments don't sell goods and services, how do they get the money they need to provide these services?"

Clarify Problem

3. Have one of the students list the answers on the flip chart.

Provide Information

4. Read Sections 1, 2, 3 and 4 of the Readings with the students:

CONTENT

1. What is Sales Tax?

In Saskatchewan, your business customers might have to pay a sales tax when they buy certain goods from you. This sales tax is called EDUCATION and HEALTH TAX.

The money from this tax is used to pay for education and health services given by the provincial government.

2. Who Pays the Tax?

Every person who buys goods from a business must pay the tax if he is going to use the goods he bought. For example, a person buying shot shells to use when he goes hunting pays the tax on the shells.

You should be aware that Native people who have treaty numbers do not have to pay sales tax in Saskatchewan.

3. When is the Tax Paid?

Sales tax is paid when the customer makes a purchase.

If a customer pays cash for the goods, the tax is part of the amount he pays. If a customer buys on credit, the tax is added onto the amount he must pay.

4. Who Collects the Tax?

You, the businessman, are responsible for collecting the tax. When a cash sale is made, you collect it at the time of the sale. When a sale is on credit, you must add the tax to the price of the goods because you are responsible to the government for collecting the tax. Remember, you have to send in the tax owed whether you collected it or not.

Indicator

5. Ask the group to summarize the Readings by putting on a flip chart the answers to the following:

   (a) What is sales tax? (a tax on consumer goods)

   (b) Who pays sales tax? (the person who is buying the goods)

   (c) When is the tax paid? (at the time of the sale)

   (d) Who collects the tax? (the businessman who makes the sale)

OBJECTIVE 2: THE STUDENTS WILL BE ABLE TO IDENTIFY FROM A LIST OF GOODS THOSE WHICH ARE TAXABLE.

Stimulus

1. Ask: "What are some items on which sales tax is not paid?"

Clarify Problem

2. Have one of the students list the answers on the flip chart. Discuss.

Provide Information

3. Read Section 5 of the Readings. Refer the students back to the list on the flip chart and ask: "Are there any items to be changed?"

5. What Goods are Free from Sales Tax?

The tax is paid on all goods except those listed below or those bought by Native people with treaty numbers.

GOODS EXEMPT FROM EDUCATION AND HEALTH TAX*

1. agricultural products bought by a farmer for use in the operation of his farm
2. fishing nets
3. used vehicles if the tax has been paid on them before
4. fuel oil
5. drugs and medicines
6. food, except when served in an eating place
7. tobacco
8. material used for the purpose of being processed or manufactured into other material for resale.

* For a complete list, look at pages 6, 7, 8, 9, 41, 42, 43 and 44 of the booklet called The Education and Health Tax Act , Taxation Branch, Treasury Department, Government of Saskatchewan.

4. Hand out the Exercise FAB 18-1, "Taxable / Non-taxable Sales".

Have the students complete the exercise. Ask individual students to give their answers. Ask the other students if they agree or disagree with the answers as they are given. Discuss any disagreements.

Make sure all students have corrected their answers to this exercise. Correct answers are shown below:

Soup	non-taxable
Cigarettes	non-taxable
Belt	taxable
Work Socks	taxable
Meat	non-taxable
A desk for an office	taxable
Chairs bought by you for resale	non-taxable
Chairs for a cafe	taxable
Drugs prescribed by a doctor	non-taxable
Pants	taxable
Frying pan	taxable
Wrenches	taxable
A muffler put on your car in a garage.	taxable

Flannelette blankets	taxable
Shoes	taxable
Shotgun shells	taxable
Flour	non-taxable
Pliers	taxable
Screwdriver	taxable
Gasoline	non-taxable

NOTE: If a treaty number is given, there is no sales tax on any item.

Indicator

5. Judge the students' performances in completing the exercise. Review the above materials if it is necessary.

OBJECTIVE 3: THE STUDENTS WILL BE ABLE TO LIST THE RECORDS NEEDED FOR SALES TAX.

Stimulus

1. Ask: "What records will you need to keep track of sales tax?"

Clarify Problem

2. Have one of the students list the answers on the flip chart. Discuss.

Provide Information

3. Read Section 6 of the Readings.

6. What Records do You Have to Keep for Sales Tax?

Because you are acting as a collector of the tax for the provincial government, you have to keep certain records and fill in special forms.

You have to keep (a) records of all the purchases you make for the business and (b) records of all the sales you make to the customers.

In Saskatchewan the forms you have to complete are called an Application for Vendor's Licence (The Education and Health Act - Section 4) and a Province of Saskatchewan Treasury Department Return of Sales and Tax Collections Quarterly Return. Later in this lesson you will be shown how to complete these forms.

Indicator

4. Refer back to the student's list of needed records that were put on the flip chart. Discuss and clarify any problems the students have in understanding the records.

OBJECTIVE 4: THE STUDENTS WILL BE ABLE TO CORRECTLY COMPLETE AN APPLICATION FOR VENDOR'S LICENCE WHEN GIVEN THE NECESSARY FACTS AND FIGURES.

Stimulus

1. Hand out Application for Vendor's Licence forms to each student, or have them use the form in the Readings.

Provide Information

2. Read Section 7 of the Readings.

7. What Licence Do You Need to Collect the Tax?

No business can sell goods in the province at retail prices unless it holds a licence to do so. The licence needed is an up-to-date Vendor's Licence. Even if the business is on Reserve land, a business will need this licence.

The Vendor's Licence gives the business the authority to collect sales tax. The licence is used to register the business under the rules of the Education and Health Tax Act.

Getting a licence doesn't cost you any money. When you go into business you just have to fill out a form called the Application for Vendor's Licence. You can get the forms from the Provincial Treasury Department, Taxation Branch.

FAB18

APPLICATION FOR VENDOR'S LICENCE

THE EDUCATION AND HEALTH TAX ACT
(Section 4)

Licence will not be issued unless all questions are answered and applicant completes the form of undertaking appended.

1. Name of business..
(PRINT - Do not write)
2. Owner...
(Print - Christian and Surname in full of owner or partners if different from above)
3. Location of business...
(Give land location if not within City, Town or Village)
4. Mailing address, if different from #3..................................
5. Opening date of business..
(Date, Month, Year)
6. Nature of business..
(Hardware, Grocery, Garage, Etc.)
7. Amount of stock to be normally carried $...........................
8. If business operated is a garage or service station, state number of gas pumps in use ....
9. Type of ownership...
(STATE whether Individual Proprietor, Partnership, Corporation)
10. If you are buying this business, give name of party from whom buying......................... date............ Licence no.....
11. Have you received your copy of the certificate that the previous owner has paid all tax in full..........(Under the Act, you may be
(YES or NO)
held liable for any unpaid tax).
12. What licences to engage in the business described above do you now hold..
13. Do you operate other retail establishments............................
14. If so, (a) state address and licence number of each other establishment: ....
(b) Do you wish to make one return covering all business done
....
(YES or NO)
15. List Ed. & Health Tax Licences previously issued to you, now cancelled, if any.

Licence number:	Under name of:	Address:

The above-named applicant hereby makes application for Vendor's Licence under the Education and Health Tax Act, and agrees to accept the responsibilities as set out in the Act, collect the tax imposed, and account to the Minister for all moneys collected under the Act.

CERTIFICATION

The above statements are hereby certified to be correct to the best knowledge and belief of the undersigned.

Name of business................... Signature..........................
Date.............................. Title..............................

If the applicant is a corporation, the application shall be under the seal of the corporation and signed by the proper officers duly authorized.

3. If an opaque projector is available, use the information following to show students how application is filled out.

   a. Name of the business - NEWSTART STORE
   b. Owner - name of instructor
   c. Location of business - location of school
   d. Optional
   e. Opening date of business - 27/12/72
   f. Nature of business - grocery
   g. Amount of stock - $4,000.00
   h. Nil
   i. Type of ownership - individual proprietor
   j. Not used for this example
   k. Same as 10
   l. List any other licences, such as gasoline vendor's licence
   m. Not applicable
   n. Not applicable
   o. Not applicable

Indicator

4. Have the group fill out the application form using their own personal information.

5. Ask the students to exchange applications to check for each other's mistakes.

OBJECTIVE 5: THE STUDENTS WILL BE ABLE TO CORRECTLY CALCULATE THE SALES TAX PAYABLE ON A GIVEN SALES TRANSACTION.

Stimulus

1. State: "The sales tax (in most provinces) is 5% of the price of the taxable goods". (Work with the sales tax rate of your province).

Provide Information

2. Read Section 8 (a) of the Readings.

8. How do You Calculate the Tax?

a. Sales tax is 5% of the price of the taxable goods. (Saskatchewan, 1972)

NOTE: If the sales tax rate is different in your province, you may prefer to work with the rate of your province.

For example, if the price of goods being bought by a customer was $5.00, and if all the goods were taxable, the tax would be: $\$5.00 \times \frac{5}{100} = \$ .25$ or 25¢.

3. Have the students do the following two questions. Then have one student put his work on the flip chart. Ask the group if they agree. Provide the correct answers.

Question 1	Answer:
Amount of taxable goods - $15.00 Rate of tax - 5% How much tax is paid?	$\$15.00 \times \frac{5}{100} = \$.75$ or 75¢

Question 2	Answer:
Amount of taxable goods - $7.70 Rate of tax - 5% How much tax is paid?	$\$7.70 \times \frac{5}{100} = \$.385$ or 39¢

4. Hand out the 5% provincial sales tax tables.

5. Ask the students to Read Section 8 (b) of the Readings.

8. b. Using Tax Tables

Instead of having to calculate what the tax would be every time you make a sale, you can use the 5% Provincial Sales Tax Table.

To use the table you look up the amount of the sale in the column, "Amount of Purchase" and read off the amount of tax in the "Tax" column.

In the case of a $5.00 sale, you look down the column, "Amount of Purchase" until you come to the amount marked $4.90 - $5.09. $5.00 comes between these two numbers so you charge the tax marked next to these numbers. You can see that the tax is 25¢.

FAB18

EXAMPLE

5% PROVINCIAL SALES TAX

AMOUNT OF PURCHASE	TAX	AMOUNT OF PURCHASE	TAX
$0.00 - $0.14	0¢	$5.10 - $5.29	26¢
.15 - .29	1¢	5.30 - 5.49	27¢
.30 - .49	2¢	5.50 - 5.69	28¢
.50 - .69	3¢	5.70 - 5.89	29¢
.70 - .89	4¢	5.90 - 6.09	30¢
.90 - 1.09	5¢	6.10 - 6.29	31¢
1.10 - 1.29	6¢	6.30 - 6.49	32¢
1.30 - 1.49	7¢	6.50 - 6.69	33¢
1.50 - 1.69	8¢	6.70 - 6.89	34¢
1.70 - 1.89	9¢	6.90 - 7.09	35¢
1.90 - 2.09	10¢	7.10 - 7.29	36¢
2.10 - 2.29	11¢	7.30 - 7.49	37¢
2.30 - 2.49	12¢	7.50 - 7.69	38¢
2.50 - 2.69	13¢	7.70 - 7.89	39¢
2.70 - 2.89	14¢	7.90 - 8.09	40¢
2.90 - 3.09	15¢	8.10 - 8.29	41¢
3.10 - 3.29	16¢	8.30 - 8.49	42¢
3.30 - 3.49	17¢	8.50 - 8.69	43¢
3.50 - 3.69	18¢	8.70 - 8.89	44¢
3.70 - 3.89	19¢	8.90 - 9.09	45¢
3.90 - 4.09	20¢	9.10 - 9.29	46¢
4.10 - 4.29	21¢	9.30 - 9.49	47¢
4.30 - 4.49	22¢	9.50 - 9.69	48¢
4.50 - 4.69	23¢	9.70 - 9.89	49¢
4.70 - 4.89	24¢	9.90 - 10.09*	50¢
4.90 - 5.09	25¢		

Purchases in excess of $10.09 are subject to tax of 5%, calculated to the nearest cent, a one-half cent shall be considered one cent.

Indicator

6. Have the students calculate (using the tax tables) the amount of tax owed on the following sales. Have one of the students put the correct answer on the flip chart.

Amount of Sale	Answers
$ 5.05	$ .25
6.30	.32
3.75	.19
2.00	.10
0.23	.01
105.16	5.26
85.24	4.26
3.75	.19
8.19	.41
0.08	.00

OBJECTIVE 6: THE STUDENTS WILL BE ABLE TO CORRECTLY COMPLETE A SALES SLIP CONTAINING A SALES TAX CALCULATION.

Stimulus

1. Ask: "How do you enter sales tax on the sales slip?"

Clarify Problem

2. Show Projectual FAB6-1, "The Sales Slip".

3. Give a student the following data and ask him to correctly fill out a sales slip.

The amount of sale = $3.75
Customer = the instructor.

Ask the other students if they agree with the answer.

Provide Information

4. Read Section 9 of the Readings.

9. How Much Does the Customer Pay?

When a customer, who has to pay sales tax, buys taxable goods, he must pay the price of the goods PLUS the tax owed on taxable goods.

TOTAL PRICE OF GOODS

PLUS TAX ON TAXABLE GOODS

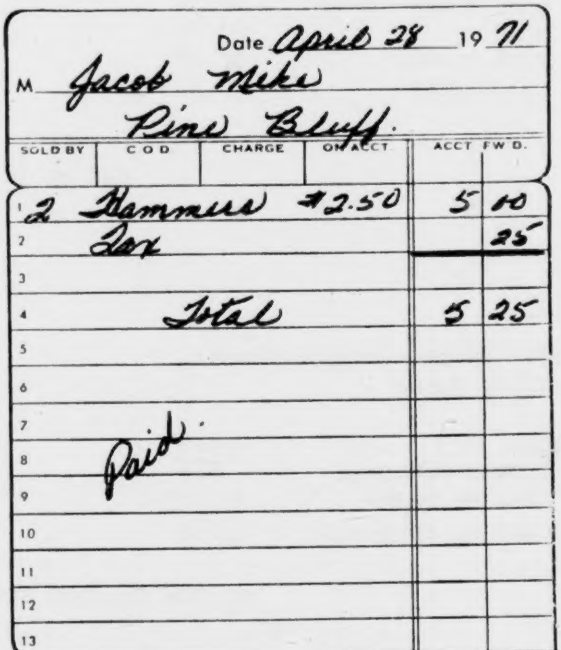
EQUALS TOTAL AMOUNT PAID BY CUSTOMER

Example

Total price of goods is $5.00
Tax on taxable goods priced at $5.00 is 25¢
The customer pays you $5.25.

PRICE	$5.00
PLUS	.25
EQUALS	$5.25

Below is an example of how the sales slip is made out.



Date April 28 19 71
M Jacob Mike
Pine Bluff.

SOLD BY	C O D	CHARGE	ON ACCT.	ACCT FWD.	

1	2 Hammers $2.50	5	00
2	Tax		25
3			
4	Total	5	25
5			
6			
7			
8	Paid.		
9			
10			
11			
12			
13			
14			
15			

15

Indicator

5. Using the sales books they were given in a previous lesson, have each student fill out sales slips using the following data.

Exercise 1

Dennis Jones, Rapid Water
today's date

Item	Price	Answers
3 yards corduroy	$1.09 per yard	$ 3.27
1 pair pliers	$1.95	1.95
4 cans rice soup	2/43¢	0.86
3 packs cigarettes	67¢ per pack	2.01
1 frying pan	$2.59	2.59
		$10.68
	tax on $7.81	0.39
		$11.07

Exercise 2

Jack John, Windy Point
today's date

Item	Price	Answers
3 cans tomato soup	3/55¢	$ 0.55
1 belt	$3.49	3.49
1 belt buckle	$2.50	2.50
1 pair socks	$0.98	0.98
		$ 7.52
	tax on $6.97	0.35
		$ 7.87

Exercise 3

Manny Wooms, Cripple Creek
today's date

Item	Price	Answers
2 loaves of bread	51¢	$ 0.51
4 cans of beans	37¢/tin	1.48
3 cans of spaghetti	2/43¢	0.65
	no tax on food stuff	$ 2.64

OBJECTIVE 7: THE STUDENTS WILL BE ABLE TO CORRECTLY COMPLETE THE NECESSARY JOURNAL ENTRIES AND POST TO THE PROPER GENERAL LEDGER ACCOUNT.

Stimulus

1. Ask: "How will you keep track of all the sales tax collected during the day?"

Clarify Problem

2. Discuss ways of keeping track of the sales tax.

Provide Information

3. Read and discuss Sections 10 and 11 of the Readings.

10. Recording Sales Tax on Credit Sales

In lesson FAB16, "Recording Credit Sales", you learned how to set up and use a Sales Journal. The Sales Journal contained only entries for sales made on account (credit sales).

As you can see, no sales tax has been charged on any of these credit sales; therefore, the amount of the sale was equal to the amount recorded to the account receivable.

If a credit sale of a taxable item had been made, the amount entered in the account receivable would have to include the sales tax. For example, if an item or items sold for ten dollars ($10.00) and there was sales tax of fifty cents (50¢) the amount the customer owes is $10.50 (ten dollars plus the fifty cents sales tax). This would be recorded in the Sales Journal as follows:

Sales Journal Page 1.

DATE	DESCRIPTION	CREDIT SALES (CR.)	SALES TAX (CR.)	ACC/REC. (DR.)	
19—					
Aug. 3.	T. C. Lee	10 00	— 50	10 50	

At the end of the day the amount in the accounts receivable (dr) column ($10.50) is posted to the account of T.C. Lee in the Accounts Receivable Ledger.

At the end of the month the Sales Journal is totalled and summarized. The totals of the columns are posted to accounts in the General Ledger as follows:

a. Total of Credit Sales credited to Credit Sales
b. Total of Sales Tax credited to Sales Tax
c. Total of Acc/Rec debited to Accounts Receivable Control.

11. Recording Sales Tax on Cash Sales

Sales tax on a cash sale is received at the time of purchase. For example: if a person purchased an item for ten dollars ($10.00) and there was tax of fifty cents (50¢) on it, you collect $10.50 from the customer.

To record the amount of sales tax collected from the cash sales of the day you make an entry in your Cash Receipts Journal as follows:

Sales for the day	$10.00
Sales tax collected	.50
Total Cash Receipts	$10.50

Cash Receipts Journal Page 1

DATE	DESCRIPTION	CASH SALES (CR.)	SALES TAX (CR.)	ACC/REC (CR.)	MISC (CR.)	CASH (DR.)	(✓)
19-							
Jan. 5	Balance 990.25						
Jan. 5	Cash Sales	10 00	— 50			10 50	✓

At the end of an accounting period the Cash Receipts Journal is totalled and summarized. The total of the sales tax column is posted to the sales tax account in the General Ledger.

4. Illustrate the Journal entries on the flip chart.

FAB18

Indicator

5. Using the sales slips they have made up for this lesson, have the students complete the necessary Journal entry. Review the lesson material if necessary.

CASH RECEIPTS JOURNAL PAGE 1

DATE	DESCRIPTION	CASH SALES (CR)	SALES TAX (CR)	ACC/REC (CR)	MISC (CR)	CASH (DR)	✓
19-							
	Sales	20 84	74			21 58	

OBJECTIVE 8: THE STUDENTS WILL BE ABLE TO CORRECTLY COMPLETE A QUARTERLY RETURN FOR SALES TAX, GIVEN THE NECESSARY FACTS AND FIGURES.

Stimulus

1. Hand out the Quarterly Return of Sales and Tax Collections forms to each students.

Clarify Problem

2. Tell the students that this is the form they will be required to fill out in order to remit (send in) the sales tax they have collected.

Provide Information

3. Read Section 12 up to the end of the second calculation.

> 12. How is the Sales Tax Remitted?
>
> When you collect sales tax you are acting for the provincial government. All the tax you collect must be sent to the government every three months. You must send the tax collected within twenty days of the end of the three-month

period in which it was collected.

Collection Period	Due Date
January 1 to March 31	April 20
April 1 to June 30	July 20
July 1 to September 30	October 20
October 1 to December 31	January 20

The government allows you to keep a certain percentage of the sales tax you collect during each period. This is to pay for collecting the tax for them.

You are allowed to keep 3% of the first $600.00 of tax collected and 2% of the amount over $600.00.

a. For example, if you had collected $200.00 of sales tax during the period January 1 to March 31, you would remit $194.00 by April 20.

CALCULATIONS:

Amount of sales tax collected $200.00
% of sales tax you can keep 3%
You keep: $\$200.00 \times \frac{3}{100} =$ 6.00
You remit: $200.00 - $6.00 = $194.00

b. If you had collected $650.00 in sales tax during the period July 1 to September 1, you would have to remit $631.00 by October 20.

CALCULATIONS:

Amount of sales tax collected $650.00
% of sales tax you can keep
(3% on first $600.00 and 2%
on $50.00)
You keep: $\$600.00 \times \frac{3}{100} = \$18.00$
$\$50.00 \times \frac{2}{100} - 1.00$
$19.00 19.00
You remit: $650.00 - $19.00 = $631.00

4. Have the students do the following exercises. Ask them to calculate how much commission they could keep for each amount of sales tax collected.

Exercise 1

Amount of sales tax collected: $226.00

Answer: $6.78.

Exercise 2

Amount of sales tax collected: $21.00

Answer: $0.63.

Exercise 3

Amount of sales tax collected: $810.00

Answer: $22.20.

5. Continue with the remainder of Section 12.

When you remit the sales tax to the government, there is a special form you have to fill out. In Saskatchewan, it is called the Quarterly Return. One is shown on the following page. You can get these from the Provincial Treasury Department, Taxation Branch.

FAB18

EXAMPLE (Saskatchewan)

TREASURY DEPARTMENT TAXATION BRANCH

Revenue Building, Provincial Capital

RETURN OF SALES AND TAX COLLECTIONS

The Education and Health Tax Act

1.	Name and Address	Licence No.	Period and Due Date	Read Instructions on reverse side carefully. Detach first sheet and return. Retain second sheet for your file.

2. If business discontinued during above period, state name of successor.

3. Date business discontinued (Your licence must be returned and application made by your successor).

		Dollars	Cents	This column for Office use
4.	TOTAL SALES THIS PERIOD			
5.	ADD: Purchase price of commodities including equipment and supplies consumed or used by the vendor and purchased tax-free or taken from stock and on which no tax has been paid.			
6.	AMOUNT OF TAX COLLECTED			
7.	ADD: Tax on purchase of commodities including equipment and supplies consumed or used by the vendor and purchased tax-free or taken from stock and on which no tax has been paid.			
8.	TOTAL TAX COLLECTED AND PAYABLE			
9.	ADD: Penalty of 10% of Total Tax (Item 8) if paid after due date			
10.	ADD: Interest of 6% per annum on total tax (Item 8) from due date of payment.			

11. TOTAL OF TAX AND PENALTIES						
12. DEDUCT VENDOR'S COMMISSION	3% on the first $600.00 of total tax (Item 8) 2% on the balance of tax (Item 8)					
	TOTAL COMMISSION					
13. Total of tax and penalties to be remitted (Deduct the total of Item 12 from Item 11)						
14. LESS PAYMENTS ON ACCOUNT						
15. BALANCE REMITTED HEREWITH						

IF NO TAX COLLECTED, NIL RETURN
MUST BE FILED
Forward this form to

TREASURY DEPARTMENT, TAXATION BRANCH
Revenue Bldg., Provincial Capital

Date Received by Taxation Branch

I hereby certify that this return is a full and complete disclosure of sales and tax collections for the period shown above.

Signature____________________ Date__________ Title__________

IMPORTANT - MAKE REMITTANCE PAYABLE TO PROVINCIAL TREASURER

QUARTERLY RETURN

6. If an opaque projector is available, use the following example to show how Quarterly Return is filled out.

   a. Point 1: Newstart Store
      Pine Bluff
      Licence No. 3317A
      Period Jan. 1 to Mar. 31
      Due date Apr. 20

   b. Point 4: Sales $5,040.00

c. Point 6: Tax collected $225.00

d. Have students do any calculations they have learned, i.e. point 12: $\$225.00 \times \frac{5}{100} = \$11.25$ total commission.

Indicator

7. Have the students use the following data plus their own personal information to complete the quarterly return:

   a. Licence number 33178A
   b. period July 1 to Sept. 30
   c. Total sales $8,501.00
   d. Tax collected $425.00

   Answer: Commission $12.75

8. Discuss the form with the students in order to clear up any confusion that exists.

9. Summarize the lesson, using the Readings in Section 13.

13. Summary

When you go into business, you must apply for a Vendor's Licence. You do this by filling in the form called Application for Vendor's Licence.

After you get your Vendor's Licence you can collect sales tax on the goods you sell. Not all goods have sales tax on them. Not all people have to pay sales tax; for example, Native people with treaty numbers do not have to pay sales tax. If you do not collect sales tax from a Native person, you must put his treaty number on the sales slip.

When you collect sales tax you must keep a record of the amount of sales tax you collect during the day into your Daily Cash Report.

You must remit to the provincial government the amount of sales tax you have collected during certain periods. The sales tax for each period must be remitted before the 20th day after the end of that period. You are allowed to keep 3% of the first $600.00 of sales tax collected and 2% of the amount of sales tax collected over $600.00. You fill out a form called the Quarterly Return when you remit your sales tax collection.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB18 SALES TAX

EXERCISE FAB18 - 1

TAXABLE/NON-TAXABLE SALES

Put an X in the correct box to indicate whether sales tax has to be paid on the following goods.

		Taxable	Non-Taxable
1.	Soup	☐	☐
2.	Cigarettes	☐	☐
3.	Belt	☐	☐
4.	Work Socks	☐	☐
5.	Meat	☐	☐
6.	A desk for an office	☐	☐
7.	Chairs bought by you for resale	☐	☐
8.	Chairs for a cafe	☐	☐
9.	Drugs prescribed by a doctor	☐	☐
10.	Pants	☐	☐
11.	Frying Pan	☐	☐
12.	Wrenches	☐	☐
13.	A muffler put on your car in garage	☐	☐
14.	Flannelette Blankets	☐	☐
15.	Shoes	☐	☐

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	Taxable	Non-taxable
16. Shotgun shells	☐	☐
17. Flour	☐	☐
18. Pliers	☐	☐
19. Screwdriver	☐	☐
20. Gasoline.	☐	☐

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB19 RECORDING CASH PAYMENTS

INSTRUCTOR'S GUIDE

OVERVIEW

The control of cash is a very important function of management. A businessman must at all times know where the money is coming from and where the money is being spent. In the lesson FAB17, the student was shown how to set up and use a Cash Receipts Journal thereby enabling him to see from where the inflow of cash came. In this lesson he is shown how to set up and use a Cash Payments Journal in order to see where the cash is being spent.

Special Journals are used to categorize specific types of transactions together. For example, accounts payable transactions are entered in the Purchases Journal, accounts receivable transactions are entered in the Sales Journal, those transactions involving the receipt of cash are entered in the Cash Receipts Journal, and those involving the payment of cash are entered in the Cash Payments Journal. In all cases the entries must be totalled and summarized in order that the data can be posted to the appropriate subsidiary Ledger accounts and the appropriate General Ledger accounts.

This lesson deals with the journalizing and posting of the records required to record the payment of cash.

OBJECTIVE

Given the necessary facts and figures, the student will be able to set up and use the appropriate records to record the payment of cash.

RESOURCES REQUIRED

1. Multi-column Journal paper
2. Ledger sheets
3. Case FAB19-1, "Bill Duran's Cash Payments".

METHODOLOGY

1. Hand out the Readings.

2. Read the Purpose and Introduction.

PURPOSE

In this lesson you will be shown how to set up and use books to keep track of cash payments of the business.

INTRODUCTION

1. How much money was paid out to the business's creditors last month?
2. How much money was paid out in loan payments?
3. How much money did you withdraw for your personal use?
4. How much money was paid out to employees?
5. How much money did you pay in taxes?
6. How much money was paid for operating expenses?

Questions about how much money was paid, and to whom and when it was paid, could go on for a long time. You as a businessman will be expected to give accurate answers to questions about your cash payments. This lesson shows you how to keep track of all the payments for which you must account.

OBJECTIVE: GIVEN THE NECESSARY FACTS AND FIGURES, THE STUDENT WILL BE ABLE TO SET UP AND USE THE APPROPRIATE RECORDS TO RECORD THE PAYMENT OF CASH.

Stimulus

3. Ask: "How does the business help keep track of the money it pays out to different businesses and people."

Clarify Problem

4. Ask the students if any of them have any questions as to a method which could provide the information required to answer the questions in the Introduction.

5. Have the students discuss point 4 above. Allow them to expand their ideas.

Provide Information

6. Suggest that this lesson illustrates one method that could be used to provide the required information.

7. Read Section 1 of the Readings. Discuss.

CONTENT

1. The Cash Payments Journal

The manager must keep track of the cash (currency and cheques) involved in the business transactions of any type of business. In lesson FAB17, "Recording Cash Receipts", you saw how to set up and use records to keep track of the receipts of the business. In this lesson you will learn how to set up and use records to keep track of the payments of the business.

Right now you could use a payment record as shown below:

DATE	DESCRIPTION	ACC/PAY (DR)	OWNER'S DRAWINGS (DR)	EXPENSES (DR)	MISC. (DR)	CASH (CR)

As you can see there are special debit columns for payments of accounts payable, for money the owner takes from the business (owner's drawings) and for miscellaneous payments. (It should be remembered that special columns can be used for items that occur fairly often during an accounting period.)

The cash column is a control entry column, and is the credit entry of all the debits in the other columns.

8. Hand out multi-column Journal paper.

9. Read Section 2 of the Readings. Discuss and illustrate on the flip chart the procedure of making entries in the Cash Payments Journal. Use as many examples as necessary.

2. Making Entries to the Cash Payments Journal

All cash payments must be recorded in your Cash Payments Journal. The payments are recorded in chronological order (the order in which they occur). The reason for the payment is entered in the description column. The amount of the payment is recorded once in one of the debit columns and again in the cash (cr.) column.

Below are some payments and how they are recorded.

a. Payment of $100.00 as part payment of an account payable.

Cash Payments Journal Page 1

DATE	DESCRIPTION	ACC/PAY (DR.)	OWNERS DRAWINGS (DR)	EXPENSES (DR.)	MISC. (DR.)	CASH (CR.)
19-						
Jan 6	Smith & Smith	100 00				100 00

b. Owner J. Mathew took out $25.00 for own use.

Cash Payments Journal Page 1

DATE	DESCRIPTION	ACC/PAY (DR.)	OWNER'S DRAWINGS (DR)	EXPENSES (DR)	MISC. (DR.)	CASH (CR)
19—						
Jan 8	J. Mathew		25 00			25 00

FAB19

c. Payment of $150.00 on loan.

Cash Payments Journal Page 1.

DATE	DESCRIPTION	ACC/PAY (DR.)	OWNER'S DRAWINGS (DR)	EXPENSES (DR.)	MISC. (DR.)	CASH (CR.)
19–						
Jan 16	Loan Payment				150 00	150 00

d. Payment of $17.00 for power.

Cash Payments Journal Page 1

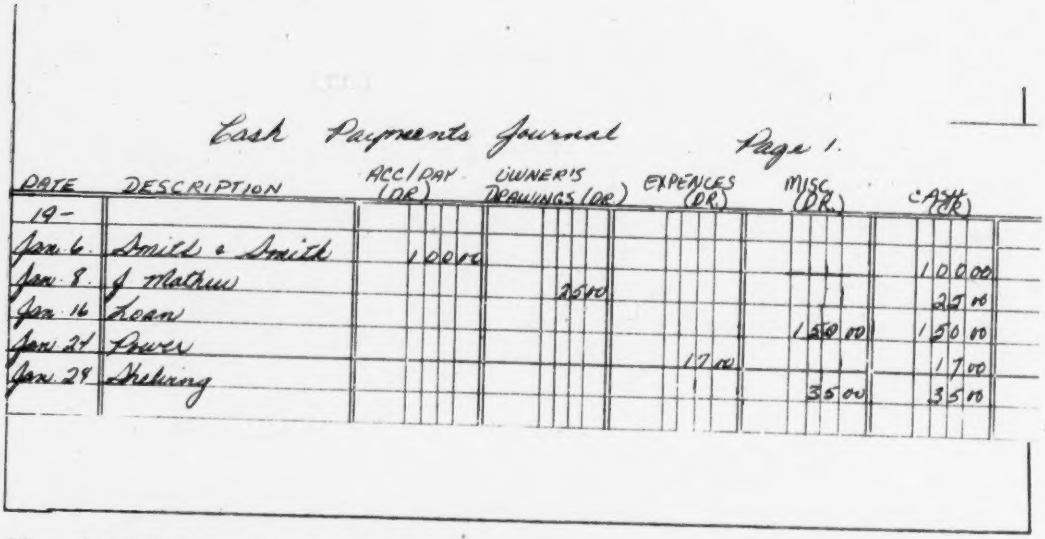
DATE	DESCRIPTION	ACC/PAY (DR.)	OWNER'S DRAWINGS (DR)	EXPENSES (DR.)	MISC. (DR.)	CASH (CR.)
19–						
Jan 24	Power			17 00		17 00

e. Payment of $35.00 for additional shelves.

Cash Payments Journal Page 1.

DATE	DESCRIPTION	ACC/PAY (DR.)	OWNER'S DRAWINGS (DR)	EXPENSES (DR.)	MISC. (DR.)	CASH (CR.)
19–						
Jan 29	Shelving				35 00	35 00

The Journal page showing all these transactions would look like the illustration shown on the following page.



Cash Payments Journal Page 1.

DATE	DESCRIPTION	ACC/PAY (DR)	OWNER'S DRAWINGS (DR)	EXPENCES (DR)	MISC (DR)	CASH (CR)
19-						
Jan. 6.	Smith & Smith	100 00				100 00
Jan. 8.	J Mathew		25 00			25 00
Jan. 16	Loan				150 00	150 00
Jan. 21	Power			17 00		17 00
Jan. 29	Shelving				35 00	35 00

10. Read Section 3 of the Readings. Discuss and illustrate the procedure for summarizing and totalling.

    a. Total the columns. The three debit columns must equal the credit cash column.

    b. Post the cash to the cash account in the General Ledger.

    c. Post the accounts payable total to the accounts payable control account in the General Ledger.

    d. Post the owner's drawings total to the net worth account in the General Ledger.

    e. Post the amounts entered in the miscellaneous column to the appropriate accounts in the General Ledger.

3. Posting the Cash Payments Journal

The amounts paid on accounts payable should be posted daily so that you always know how much is owed to creditors. The Accounts Payable Ledger keeps track of the amount that has been paid to individual creditors.

At the end of the month the Cash Payments Journal is totaled and summarized. The column totals are posted to the proper accounts in the General Ledger.

a. The total of the accounts payable column is debited to the accounts payable (control) account in the General Ledger.

b. The total of the owner's drawings column is debited to the net worth account.

c. The individual items in the miscellaneous column are debited to the accounts named.

d. The total of the cash column is credited to the cash account in the General Ledger.

Cash Payments Journal Page 1.

DATE	DESCRIPTION	ACC/PAY (DR)	OWNERS DRAWINGS (DR)	EXPENSES (DR)	MISC (DR)	CASH (CR)	
19—							
Jan 6	Smith & Smith	100 00				100 00	✓
Jan 8	J. Mathew		25 00			25 00	✓
Jan 16	Loan Payment				150 00	150 00	✓
Jan 24	Power			17 00		17 00	✓
Jan 29	Shelving				35 00	35 00	✓
		100 00	25 00	17 00	185 00	327 00	
	Acc/Pay Control	100 00					
	Net Worth	25 00					
	Expense	17 00					
	Misc	185 00					
	Cash		327 00				
		327 00	327 00				

11. Read Section 4 of the Readings. Discuss.

4. Summary

All cash payments are recorded in the columns of the Cash Payments Journal. For each debit entry in the columns, the cash column is credited.

The amounts entered in the accounts payable column are posted daily to the Accounts Payable Ledger.

At the end of each month the Cash Payments Journal is totaled and summarized, and the column totals are posted to the General Ledger.

a. The total accounts payable column is posted to the accounts payable (control) account in the General Ledger.

b. The individual transactions in the miscellaneous column are posted to the General Ledger accounts described.

c. The total of the owner's drawings column is posted to the net worth account in the General Ledger.

d. The total of the cash column is posted to the cash account in the General Ledger.

Indicator

12. Hand out Case FAB19-1, "Cash Payments".

13. Have the students follow the instructions at the end of the case. The Cash Payments Journal, the accounts in the Accounts Payable Ledger, and the accounts payable control account are shown on the following pages. The students will require information from Case FAB17-1 to complete part 3 of the instructions.

CASH PAYMENTS JOURNAL

PAGE 1

DATE		DESCRIPTION	ACC/PAY (DR)	OWNER'S DRAWINGS (DR)	EXPENSE (DR)	MISC. (DR)	CASH (CR)	
19-								
Aug	2	Help			15 00		15 00	✓
	4	Purchases				379 16	379 16	✓
	4	Repairs			35 71		35 71	✓
	10	Purchases				311 71	311 71	✓
	11	Help			40 00		40 00	✓
	15	Withdrawal		279 00			279 00	✓
	15	Power (July)	18 29				18 29	✓
	15	Telephone (July)	9 01				9 01	✓
	21	Repairs			16 91		16 91	✓
	22	Help			21 00		21 00	✓
	23	Purchases				479 81	479 81	✓
	25	Central Sales	109 85				109 85	✓
	25	Help			21 00		21 00	✓
	26	Loan Payment				300 00	300 00	✓
	28	Withdrawal		50 00			50 00	✓
	29	T.A. Transport	65 91				65 91	✓
	30	Purchases				569 35	569 35	✓
	31	AV Wholesale	453 06				453 06	✓
	31	Gas Bill	37 95				37 95	✓
			694 07	329 00	149 62	2040 03	3212 72	
	31	Acc/Pay. Control	694 07					
	31	Nt Worth	329 00					
	31	Expenses	149 62					
	31	Misc.	2040 03					
	31	Cash		3212 72				

FAB19

ACCOUNT NO.
NAME A & B Meats
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
19	-									
Aug	8						8 60	Cr.	✓	8 60
"	20						26 50	Cr	✓	35 10
"	23						56 00	Cr	✓	91 10
"	29						25 00	Cr	✓	116 10

ACCOUNT NO.
NAME A V Wholesale
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
19	-									
Aug	1						99 50	Cr	✓	99 50
	7						171 36	Cr	✓	270 86
	15						182 20	Cr	✓	453 06
	31	Payment			453 06					0

ACCOUNT NO.
NAME Central Sales
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
19	-									
Aug	7						54 40	Cr	✓	54 40
	13						55 45	Cr	✓	109 85
	25	Payment			109 85					0
	28						53 00	Cr	✓	53 00

FAB19

ACCOUNT NO. ____________ SHEET NO. ____________
NAME W & W Seafood Sales TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR/CR	✓	BALANCE
19	—									
Aug	1						104 50	Cr	✓	104 50
	7						191 50	Cr	✓	296 00
	13						80 46	Cr	✓	376 46

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Power TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR/CR	✓	BALANCE
19	—									
Aug	10	July					18 29	Cr	✓	18 29
	15	Paid			18 29					0

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Telephone TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR/CR	✓	BALANCE
19	—									
Aug	12	July					9 01	Cr	✓	9 01
	15	Paid			9 01					0

FAB19

ACCOUNT NO.
NAME J. A. Transport
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	—									
Aug	28						6591	Cr.	✓	6591
	29	Paid			6591					0

ACCOUNT NO.
NAME Jas Bell
ADDRESS
SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	—									
Aug	17						3795	Cr.	✓	3795
	31	Payment			3795					0

FAB19

SUMMARY OF ACCOUNTS PAYABLE
as of August 31, 19__

A & B Meats	$116.10
Central Sales	53.00
W & W Food Sales	376.46
Total	$545.56

Balance of Accounts Payable Control Account

Accounts Payable (credit): Purchases Journal	$1,239.63
Accounts Payable (debit): Cash Payment Journal	694.07
Balance (credit)	$ 545.56

Cash Balance as of August 31, 19

Cash Beginning of month	$3,303.02
Plus: Cash Receipts	4,109.07
	$7,412.09
Less: Cash Payments	3,212.72
	$4,199.35

CASE

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB19 RECORDING CASH PAYMENTS

CASE FAB19 - 1

BILL DURAN'S CASH PAYMENTS

Bill Duran had his friend prepare a Purchases Journal, Sales Journal, Cash Receipts Journal and the necessary subsidiary Ledgers. He now wants him to prepare records so he can check the payment of cash. He has brought along the following information:

1. Cash Payments for the month of August:

August 2, 19__	Part time-help	$ 15.00
4	Cash Purchases	379.16
4	Repairs	35.71
10	Cash Purchases	311.71
11	Part-time help	40.00
15	Withdrawal for Personal Use	279.00
15	Power Bill (July)	18.29
15	Telephone Bill (July)	9.01
21	Repairs	16.91
22	Part-time help	21.00
23	Cash Purchases	479.81
25	Central Sales	109.85
25	Part-time help	21.00
26	Loan payment	300.00
28	Personal Withdrawal	50.00
29	F.A. Transport	65.91
30	Cash Purchases	569.35
31	A.V. Wholesale	453.06
31	Gas Bill	37.95

2. Purchase Journal for the month of August.

Purchases Journal Page 1.

DATE	DESCRIPTION	PURCHASES DR.	FREIGHT DR.	EXPENSES DR.	MISC. DR.	ACC/PAY CR.	
19—							
Aug. 1.	AV Wholesale	99 50				99 50	✓
Aug. 1.	W&W Food Sales	104 50				104 50	✓
Aug. 7	AV Wholesale	171 36				171 36	✓
Aug. 7	Central Sales	54 40				54 40	✓
Aug. 7.	W&W Food Sales	191 50				191 50	✓
Aug. 8	A&B Meats	8 60				8 60	✓
Aug. 10	Power			18 29		18 29	✓
Aug. 12	Telephone			9 01		9 01	✓
Aug. 13	Central Sales	55 45				55 45	✓
Aug. 13	W&W Food Sales	80 46				80 46	✓
Aug. 15	AV Wholesale	182 20				182 20	✓
Aug. 17	Gas			37 95		37 95	✓
Aug. 20	A&B Meats	26 50				26 50	✓
Aug. 23.	A&B Meats	56 00				56 00	✓
Aug. 28	Central Sales	53 00				53 00	✓
Aug. 28	F.A. Transport.		65 91			65 91	✓
Aug. 29	A&B Meats	25 00				25 00	✓
		1108 47	65 91	65 25		1239 63	
Aug. 31	Purchases	1108 47					
Aug. 31.	Freight	65 91					
Aug. 31	Expenses	65 25					
Aug. 31.	Acc/Pay Control		1239 63				

INSTRUCTION

1. Put yourself in the position of Bill's friend; enter the above

information into a Cash Payments Journal.

2. Post the Accounts Payable Ledger accounts to the end of August and check to be sure they are in balance with the Accounts Payable Control account in the General Ledger.

3. Determine how much cash is on hand at the end of business August 31.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB20 HANDLING AND RECORDING CASH

INSTRUCTOR'S GUIDE

OVERVIEW

Perhaps the best overall control of cash is the proper handling of money. In this lesson the student is shown how to handle money in the proper manner. The manner in which the businessman takes and gives out money leaves an impression on the customer. If he is sloppy in making change, the customer is likely to have a bad impression of the businessman. If he is careless in handling money, the businessman runs the risk of losing money by making the wrong change. Therefore, it is important that money be handled properly as a first step toward controlling it.

A Daily Cash Sheet is useful for checking that the correct amount of cash is in the till. The Daily Cash Sheet is determined on the basis of the following formula:

Beginning balance + Cash receipts - Cash payments = Cash on Hand

1. The beginning balance is the amount of cash the business has at the beginning of the day.

2. The cash receipts is the total of the receipts from all sources received during the day.

3. The cash payments is the total of all payments made during the day.

4. The cash on hand is the amount of cash that should be in the till or money box.

To check the cash on hand, the businessman simply counts the money in the till or money box. If the total of the money is the same as the cash on hand, the cash is in balance. If not he must check to find the mistake. If the mistake cannot be found, he must account for money short or over by making the appropriate Journal entry.

a. Cash over is entered in the Cash Payments Journal.
b. Cash short is entered in the Cash Receipts Journal.

The cash over or cash short entry is posted to a cash short/over account in the General Ledger.

Any business that handles cash must set up methods to check the amounts of cash it handles. It must also make sure all people responsible for handling cash transactions know the proper procedures of handling cash. Cash is an extremely important asset of any business and must be protected.

OBJECTIVES

1. The student will be able to correctly complete a sales transaction which involves giving change.

2. Given the necessary information, the student will be able to prepare a Daily Cash Sheet.

RESOURCES REQUIRED

1. Case FAB20-1, "How Do I Keep Track of My Cash?"
2. Assorted currency and coin ($10.00 for every two students)
3. Cash Register (till)
4. Blank Daily Cash Sheets
5. Audio-visual equipment - videotape
   - overhead projector
6. Flip chart

METHODOLOGY

1. Hand out Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will be shown how to handle cash in business transactions, and how to make sure you have the correct amount of cash at the end of a business day.

INTRODUCTION

One of your jobs in business will be handling money. If you make a mistake, two people will get hurt -- you and your customer. Therefore, it is important that you learn how to handle money correctly.

Besides being able to handle money correctly, you must have some way of checking to see if you have the correct amount of money in the cash box or cash register at the end of the day.

OBJECTIVE 1: THE STUDENT WILL BE ABLE TO CORRECTLY COMPLETE A SALES TRANSACTION WHICH INVOLVES GIVING CHANGE.

Stimulus

2. Tell the students: "One of the important jobs facing anyone working in a business is handling money. You take money in, you pay money out, and you make change. How are you going to handle the money in your business?"

Clarify Problem

3. Discuss the above question. Point out: "You can handle money through the use of a cash box and vouchers or through the use of a till."

Provide Information

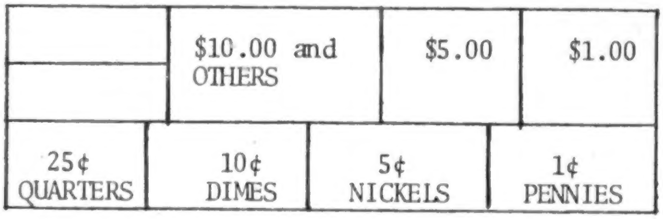
4. Read Section 1 of the Readings, pausing at the places indicated below.

CONTENT

1. The "Change Fund"

Each morning a supply of change for use during the day must be placed in the cash box or cash register. This is called the "change fund". In the change fund, you will keep the amount you estimate you will need for business.

5. Show the students a cash box and the drawer of a till. Demonstrate the proper arrangement of money in the drawer.



(The cash box is divided into compartments so it is easier to count your change. Each compartment holds one kind of bill or coin.)

6. Show how to count money in the drawer at the beginning and at the end of the day. Then read the rest of Section 1, dealing with placing money into the cash drawer.

> A simple way of counting your change fund is to remove it from your cash drawer. Place a piece of stiff cardboard over the cash box so that it covers the bill compartments, but leaves the coin compartments uncovered. Empty your change fund on the cardboard. Count the coins, one kind at a time, sliding them off the cardboard into their proper compartments. List the total of each kind of coin on the back of a slip of paper. Then count the currency (paper money) and list it. Total the figures to make sure the amount of change is correct. At the close of the day a similar procedure is followed in counting cash receipts, the totals being listed on the Daily Cash Sheet.
>
> It is important to count change carefully - whether you are receiving it in a "change fund", giving it to customers, or totalling your cash receipts at the close of business.

7. Read Section 2 of the Readings.

> 2. Making Change
>
> Step 1: Mention the total of the sale and the amount received from the customer:

When the customer has made his selection, take the money given to you for the purchase, and keeping it in plain view, call back to the customer both the total of the sale and the amount received. For example, if the price of the merchandise is $2.44, and the customer gives you a $5.00 bill, hold the bill so that the customer can see it and say, "That is $2.44 out of $5.00".

This will help you remember both amounts and will call the customer's attention to the amount of money he or she gave you, so there will be no misunderstanding.

Step 2: Place the customer's money on the change plate:

Stand squarely in front of the cash register. Place the customer's money on the change plate. This leaves both hands free to operate the register and to make change. It also permits the customer to see the money and prevents you from forgetting the amount the customer gave you. Do not put the bill in the drawer until the change has been counted.

Step 3: Record the sale on the cash register:

In recording the sale be careful to press the correct keys. Check to see that you pressed the correct keys. If you have made an error, you still can correct it by operating the release key or lever. You then press the proper keys. With the correct keys pressed down, register the transaction onto the tape.

The cash drawer is designed to open its full length, so experienced sales people form the habit of slowing the opening of the drawer with one of their hands.

Operating the register causes the amount of sale to come into view on the indicator at the top of the register. A record of the transaction is printed on a paper tape inside the machine. Some registers print and issue a receipt showing details of each sale, or print these details on a sales slip when the slip is put in the register printing table. Check to see if you rang up the correct amount by looking at the indicator. Take the customer's receipt or sales slip and place it on the change plate, amount side up, beside the money received from the customer. Now you are ready to count change.

If your register does not issue a receipt, refer to the indicator to remind you of the amount of the customer's purchase.

Step 4: Count change carefully:

Follow this rule for the easiest, quickest and most accurate method of counting change: START COUNTING WITH THE AMOUNT OF THE SALE SHOWN ON THE RECEIPT OR SALES SLIP OR ON THE INDICATOR; STOP COUNTING WHEN THE SUM IS THE SAME AS THE AMOUNT THE CUSTOMER GAVE YOU.

If you follow this rule you need not add nor subtract; you merely count money. For example: If the purchase is for $2.44 out of $5.00, start counting with the $2.44. Count: "2.44, $2.45, $2.50 $3.00, $4.00, $5.00" as you take the coins and currency from the till. You stopped counting with the amount the customer gave you.

Take the customer's money and place it in the proper compartment or compartments of the cash drawer. Close the drawer immediately.

Step 5: Deliver change, receipt or sales slip, and merchandise to customer:

Place the receipt or sales slip in the package with the merchandise. Count the change back to the customer, coin by coin and bill by bill. Start with the amount of the sale and stop with the amount the customer gave you. When you have done this the change will have been counted three times; twice by you and once by the customer as he received it from you. Place the change in the customer's hand, if possible; do not just throw it on the counter.

Demonstrate making change, using a student as the customer, you as the cashier. Clarify any points in procedure that are unclear to the students.

8. Divide the class into pairs of two students. Give each pair $10.00 in assorted bills and coins, and have one student in each pair tender cash, and the other student make change for the following transactions: (Do not use the cash register at this point.)

SALE	CASH TENDERED
$3.45	$5.00
6.25	7.00
5.35	6.00
3.13	3.25

Have the students in each pair exchange tasks:

$ .95	$1.00
6.23	6.25
9.09	9.25
9.99	10.00

Check to see that each pair is using the correct procedure.

9. Have each pair come to the till and set up the cash drawer. Videotape the following transactions for replay purposes.

$1.25	$2.00
3.25	3.25
5.05	6.00

Points to watch for:

a. that the cash drawer is set up correctly
b. that the correct keys are punched on till
c. that the correct change-making procedures are followed.

10. Read Section 3 of the Readings. Discuss.

3. Other Tips on Making Change

In counting money be sure to mention each dollar denomination. This will prevent skipping a dollar. For example, see how easy it would be to give a dollar too much change by counting it this way: "That was $2.44 out of $5.00. Count -- 44, 45, 2, 3, 4, 5." The loss would be avoided if the change were counted correctly: "That was $2.44 out of $5.00 -- $2.44, $2.45, $2.50, $3.00, $4.00, $5.00.

A customer, whose purchase totals a few cents over an even amount, may gave you the odd pennies in addition to the money for which you must make change. These "odd cent" transactions should be handled in this way:

Suppose the customer buys an item costing $1.26 and gives you two $1.00 bills and one penny in payment.

Cancel out the odd penny when counting the change from the cash drawer: "$1.25 out of $2.00 -- $1.25 and 25 is $1.50 and 50 is $2.00." Then counting the change back to the customer, follow the usual rule, starting with the amount of the sale and stopping with the amount the customer gave you: $1.26 out of $2.01 -- $1.26 and 25 is $1.51 and 50 is $2.01."

As another example, suppose the customer buys an item costing $2.13 and hands you a $5.00 bill, a dime, and three pennies. Cancel out the 13¢ when counting change from the cash drawer: "$2.00 out of $5.00 -- $2.00, $3.00, $4.00, $5.00." Then, when counting the change back to the customer, count: "$2.13 out of $1.13 -- $2.13 and $1.00 is $3.13, $1.00 is $4.13, and $1.00 is $5.13.

No sale is satisfactorily completed until the customer is thanked. Make the customer want to return to your store -- and to you.

11. After reading this section, have the pairs of students make the following transactions.

SALE	CASH TENDERED
$4.25	$5 bill and 25¢
3.13	4 - $1 bills and 13¢
2.26	$5 bill and 1¢
3.78	4 - $1 bills and 3¢
6.21	$5 bill, 2 - $1 bills and 1¢

12. Review cash register techniques by having one student volunteer to be a clerk and another to be a customer. Let the students decide on the transaction amount and the amount tendered. Videotape the transactions.

13. Review the role-play by playing back all the videotapes. Discuss.

14. Introduce the idea of short-change artists. Ask: "What are they and how do they operate?" Have the students show or tell any techniques they have seen or heard about being used to get the best of a clerk.

15. Read Section 4 of the Readings. Discuss.

4. Safeguards in Handling Money

a. Make change with fewest pieces of money possible.

In counting change use the fewest pieces of money possible. For example, use a dime instead of two nickels; a quarter instead of two dimes and a nickel. This will help you speed service to customers and will lessen chances for error, because you will be handling fewer coins.

b. Keep your cash drawer closed when not in use.
An open, unattended cash drawer invites theft. When you close the drawer, do not slam it, but push it firmly until the latch clicks. Learn to recognize the sound of the cash register bell, so you will know if someone opens the drawer.

c. Handling paper money
When placing paper money in the cash drawer, always turn it face up, smooth it out, and place it under the weight in the correct compartment. New money can "stick together". Make certain when handling it you do not give a customer two bills instead of one by mistake. New currency can be prevented from sticking together if you turn down one corner of each bill, or crumple the bill and then straighten it out. Always keep $1.00 bills separate from larger bills in your cash drawer. Pay particular attention to the amount of all the paper money you handle to prevent mistaking a large bill from a small one.

d. In case you give out the wrong change.
If the customer questions the amount of change, be courteous. Ask that all of the change be handed back to you, and start counting all over again. If you discover that the amount of change is wrong and you are SURE you have made an error, register "No Sale" on the cash register and make the necessary correction in the amount of change.

e. Protecting yourself from short-change artists.
"Short-change artists" will deliberately try to cheat you. One method they use is to claim that they gave you a larger bill than they really did.

By calling out the amount of the purchase and the amount tendered, and by not putting the customer's money away until he leaves, you can always show the customer the amount he gave you.

Another trick of the "short-change artist" is to try to confuse you. When you are in the middle of counting change, he will suddenly "remember" he wanted something else and ask you to add it onto the sale. Or they may ask you to exchange one item for another. They are only attempting to confuse you. Not all people who interrupt you are "short-change artists", but a few of them are.

To avoid being "taken in" by the short-change artist, do not allow yourself to be confused. Complete the change-making before adding another item to the purchase or making an exchange. If he tries to interrupt you, say "Just one moment, please," finish your change-making then answer his question.

As you gain more experience, handling money becomes easier. But remember ALWAYS COUNT CHANGE CAREFULLY - WHETHER YOU ARE RECEIVING IT IN A "CHANGE FUND", GIVING IT TO CUSTOMERS, OR TOTALLING YOUR CASH RECEIPTS AT THE CLOSE OF BUSINESS.

Indicator

16. Have a number of students volunteer to wait on various students who will be customers. (If possible have students from other courses, coaches, administrative staff, or observers volunteer to be the customers.)

    The students who act as cashiers must:

    a. count cash beginning
    b. arrange cash drawer
    c. ring up the sale
    d. give the correct change
    e. count the cash ending.

    Videotape these transactions.

17. Play back the videotapes and discuss.

OBJECTIVE 2: GIVEN THE NECESSARY INFORMATION, THE STUDENT WILL BE ABLE TO PREPARE A DAILY CASH SHEET.

Stimulus

1. Hand out copies of Case FAB20-1, "How Do I Keep Track of My Cash?" and read over with students.

Clarify Problem

2. Discuss the questions at the end of the case.

Question 1: "Why would Peter want to keep track of his cash?" Have one of the students list the answers on the flip chart.

Some example answers are:

a. to know how much money he made during the day;

b. to know how much money he took in during the day;

c. to know how much money he took in from sales versus other receipts such as education and health tax, cash paid on account, loans repaid and so on;

d. to know how much money he paid out for merchandise, purchases, expenses such as light, power, help, and so on;

e. to know if he has made a mistake in giving change.

Summarize the reasons listed on flip chart.

Question 2: "How could Peter keep track of his cash?" Have one of the students list the answers on the flip chart.

Some example answers are:

a. he could use sales books;
b. he could use invoices;
c. he could use a cash register.

Summarize the answers on the flip chart.

Provide Information

3. Read Section 5, part a, of the Readings with the students.

> 5. The Daily Cash Sheet
>
> a. Purpose of the Daily Cash Sheet
> The Daily Cash Sheet is used to keep track of how much money has been taken in during the day, and how much money has been paid out during the day. You also use the Daily Cash Sheet to make sure you have the right amount of cash in your cash box or cash register at the end of the day.

4. Hand out blank 8" x 11 1/2" paper.

5. Using clear plastic roll on overhead projector, read Section 5, parts b and c. Fill out the Daily Cash Sheet, putting examples on the overhead projector.

b. Parts of the Daily Cash Sheet
You can make Daily Cash Sheets on any blank sheet of paper. At the top you write "DAILY CASH SHEET" and right under this you put the correct date. The left side of the paper is called the receipts side. The right side of the paper is called the payments side.

c. Filling Out the Daily Cash Sheet
To fill out the Daily Cash Sheet, you must first collect all your sales slips that you made during the day. You must also collect all the pay out vouchers you made out during the day. It is necessary to have a Small Sales Book if you are operating out of a cash box. When you have all these records, you are ready to fill out your Daily Cash Sheet.

6. Read Section 6 of the Readings. Illustrate the preparation of a Daily Cash Sheet on the overhead projector. Information can be suggested by the students.

6. Preparing the Daily Cash Sheet

a. First take all your cash sales slips and your Small Sales Book (if you have one) and list the totals of each sale on the left side of the sheet of paper you are using.

b. After you have listed the cash sales, total them. The total you get will be called total cash sales.

c. Turn the sheet of paper over and put this figure, total sales, at the left side of the sheet.

d. In the middle of the sheet write total cash sales straight across from the figures you just put in.

e. Next take all your pay out vouchers and separate them into two piles. The first pile will be made up of "Cash Purchases". The other pile you will call "Expenses".

f. On the same side of the sheet as you listed your cash sales, (turn the sheet over), list the "cash purchase" vouchers, but list them on the right side of the sheet.

g. Total the cash purchases.

h. Turn the sheet over and write this total on the right side of the sheet, in the middle of the sheet straight across from the figures write "cash purchases".

i. Now turn the sheet back to the side where you have been listing items.

j. Take the other pile of pay out vouchers which you called "expenses" and list them on the right side.

k. Total the expenses.

l. Turn the sheet over and put this total on the right side under the cash purchases figures.

A Daily Cash Sheet is shown below:

DAILY CASH SHEET
JANUARY 6, 19__

Receipts		Payments
$109.00	Cash Sales	$
	Cash Purchases	5.00
	Expenses	12.00
12.00	Payments on Acc/Rec	
	Payments on Acc/Pay	100.00
	Loan Payment	150.00
100.00	Net Worth	
	Shelving	35.00
$221.00	TOTAL	$327.00
	Cash beginning $769.25	
	Plus: receipts 221.00	990.25
	Less: payments	327.00
	Cash on hand	$663.25

FRONT OF DAILY CASH SHEET

SALES

$ 17.01
39.16
41.95
10.88

$109.00

CASH PURCHASES

$ 5.00

EXPENSES

Power $ 12.00

CASH IN TILL

Silver	1.25
162 x 1 =	$162.00
50 x 5 =	250.00
21 x 10 =	210.00
2 x 20 =	40.00
	$663.25

Cash on hand	$663.25
Cash in till	663.25
Over (short)	-0-

BACK OF DAILY CASH SHEET

7. Read Section 7 of the Readings. Compare the example you used to illustrate Section 6 of the Readings.

7. Completing the Daily Cash Sheet

Once you have listed all the sales slips and pay out vouchers, and have put them in the correct place on the Daily Cash Sheet, you are ready to do the calculations.

a. First you add up the receipts side of the Daily Cash Sheet.

b. Next you add the payments side of the Daily Cash Sheet.

c. Draw a line across the sheet below the last receipt and payment entry.

d. Below this line write in the total receipts figure on the left side of the page, and the total payments figure on the right side of the page.

e. Draw a double line beneath each total.

f. Record the beginning cash balance.

g. To the beginning cash balance, add the total receipts, then subtract the total payments to arrive at the cash on hand figure (or ending cash balance).

8. Ask each student to complete a Daily Cash Report for the following exercises. (Review above material if necessary). Put the following information on the flip chart.

Exercise 1

Sale 1	$17.63
Sale 2	35.71
Sale 3	61.55
Sale 4	10.66
Merchandise purchase	51.06
Merchandise purchase	17.07
Merchandise purchase	3.05
Expense	6.00
Expense	3.00
Expense	15.00

Exercise 2

Sale 1	15.07
Sale 2	7.07
Sale 3	1.36
Merchandise purchase	20.00
Expense	7.00
Expense	15.00

Exercise 3

Sale	3.05
Payment on Acc/Rec	135.75
Merchandise purchase	16.07
Sale	7.07
Sale	21.00
Sale	10.00
Expense	3.05
Payment on Acc/Pay	25.00
Expense	1.16
Merchandise purchase	21.00
Sale	15.00

Solutions to Exercises

DAILY CASH SHEET
#1

Receipts		Payments
$125.55	Cash Sales	
	Merchandise Cash Purchase	$ 71.18
	Expenses	24.00
$125.55	TOTAL	$ 95.18

DAILY CASH SHEET
#2

Receipts		Payments
$ 23.50	Cash Sales	
	Merchandise Cash Purchases	$ 20.00
	Expenses	22.00
$ 23.50	TOTAL	$ 42.00

DAILY CASH SHEET
#3

Receipts		
$ 56.12	Cash Sales	
	Merchandise Cash Purchases	$ 37.07
	Expenses	4.21
135.75	Accounts Receivable	
	Account Payable	25.00
$191.87	TOTAL	$ 66.28

9. Read Section 8 of the Readings.

8. Balancing Cash on Hand

After you have calculated the cash on hand you are ready to balance your cash.

a. Steps in Balancing Your Cash

Step 1: First count the money you have in your cash box or cash register. Mark the figures down on the Daily Cash Sheet. For example if you have five one dollar bills, three ten dollar bills and seventy-five cents in change you mark down the figures and total as below:

5 x 1 =	$ 5.00
3 x 10 =	30.00
6 x 20 =	120.00
Silver =	6.75
Total	$161.75

This is how much money you actually have in your cash box or cash register.

Step 2: Record the cash on hand figure.

Step 3: Immediately below the cash on hand figure record the cash in till figure.

Step 4: Subtract cash in till from cash on hand. If the difference is zero (0), your cash is balanced. If the cash on hand is larger than the cash in till, your cash is short; that is, you have lost some money from the till. If the cash in till is larger than the cash on hand, your cash is over; that is you have more money in the till than you can account for.

If your cash is over or short; first count the cash, next check the additions on the Daily Cash Sheet, then check the transferring of the document data to the Daily Cash Sheet, and then check the additions, etc. on the documents.

10. Ask the students how the information on the Daily Cash Sheet would be entered into the books of the business. Discuss, bringing out the use of Journals.

11. Read Section 9 of the Readings. Refer back to FAB17, "Recording Cash Receipts" and FAB19, "Recording Cash Payments", if necessary.

> 9. Recording the Daily Cash Sheet into the Journal
>
> The information on the Daily Cash Sheet is entered into two Journals. The figures on the receipts side of the Daily Cash Sheet are entered into the Cash Receipts Journal (see FAB17, "Recording Cash Receipts"). The figures on the payments side of the Daily Cash Sheet are entered into the Cash Payments Journal (see FAB19, "Recording Cash Payments").

12. Read Section 10 of the Readings. Discuss.

> 10. Summary
>
> Control of the cash carried by a business is very important. Mistakes in counting cash are easily made. Because mistakes result in cash loss or customer ill will, they are costly to the business. Counting cash is important.
>
> To help you control cash, a Daily Cash Report can be prepared. It will allow you to determine if your cash is balanced at the end of the day, and it aids in journalizing the Special Journals.
>
> You, the businessman, must take care of the cash in your business. You cannot afford to make mistakes when handling cash -- mistakes cost you money and loss of customers.

Indicator

13. Have each student, using the information in point 8 above and the following daily cash positions, balance the cash on a Daily Cash Sheet. Put the following information on a flip chart.

    a. First day beginning balance of $160.00
    b. Cash in drawer at end of each day:

        Day 1: Change $2.37
        5 twenty dollar bills
        5 ten dollar bills
        6 five dollar bills
        8 one dollar bills

Day 2: Change $0.27
6 twenty dollar bills
3 ten dollar bills
3 five dollar bills
6 one dollar bills

Day 3: Change $3.96
9 twenty dollar bills
4 ten dollar bills
6 five dollar bills
5 two dollar bills
33 one dollar bills

Solutions to Exercises

DAILY CASH SHEET
#1

Receipts			Payments
$125.00	Cash Sales		
	Merchandise Cash Purchases		$ 71.18
	Expenses		24.00
$125.00	TOTAL		$ 95.18
	Cash beginning	$160.00	
	Plus: receipts	125.55	
			285.55
	Less: payments		95.18
	Cash on hand		$190.00

Cash in Till

Silver = $ 2.37
8 x 1 = 8.00
6 x 5 = 30.00
5 x 10 = 50.00
5 x 20 = 100.00

Cash Balance

Cash on hand	$190.37
Cash in till	190.37
Over (Short)	-0-

FAB20

DAILY CASH SHEET
#2

Receipts		Payments
$ 23.00	Cash Sales	
	Merchandise Cash Purchases	$ 20.00
	Expenses	22.00
$ 23.00	TOTAL	$ 42.00

Cash beginning	$190.37	
Plus: receipts	23.50	
		213.87
Less: payments		42.00
Cash on hand		$171.87

Cash in Till

Silver =	$ .27
6 x 1 =	6.00
3 x 5 =	15.00
3 x 10 =	30.00
6 x 20 =	120.00
	$171.27

Cash Balance

Cash on hand	$171.87
Cash in till	171.27
Over (Short)	($ .50)

DAILY CASH SHEET
#3

Receipts		Payments
$ 56.12	Cash Sales	
	Merchandise Cash Purchases	$ 37.07
	Expenses	4.21
135.75	Accounts Receivable	
	Accounts Payable	25.00
$191.87	TOTAL	$ 66.28

Cash beginning	$171.87	
Plus: receipts	191.87	
		$363.74
Less: payments		66.28
Cash on hand		$297.46

FAB20

Cash in Till	
Silver =	$ 3.96
33 x 1 =	33.00
5 x 2 =	10.00
6 x 5 =	30.00
4 x 10 =	40.00
9 x 20 =	180.00
	$296.96

Cash Balance	
Cash on hand	$297.46
Cash in till	296.96
Over (Short)	($ .50)

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB20 HANDLING AND RECORDING CASH

CASE FAB20 - 1

"HOW DO I KEEP TRACK OF MY CASH?"

Today was the opening day of Peter Gill's general store. Peter was excited because he and his wife had worked hard to open their own business.

Many people came to buy groceries and hardware from Peter. During the first day he sold several large orders and took in a lot of money. However, Peter also paid out money during the day. He gave boys money each time they helped the customers carry home their orders. In addition Peter paid a bill collector and two truck drivers who delivered the supplies which he had ordered last week.

After the last customer went, Peter wanted to find out how much money he had taken in from cash sales, and how much he had paid out for expenses and merchandise purchases.

When Peter counted the cash in his cash box, he found he had $675.25 rather than the $350.00 he had put into the cash box in the morning. Peter knew, therefore, that he now had $325.25 more in the cash box than when he started. But how much had he taken in from cash sales? And how much had he paid out and to whom had he paid it?

When Peter or his wife had served a customer they added the cost of the goods on any piece of paper that was handy. Sometimes when there were only one or two items, they did not mark the prices down. Peter did not have any record of how many customers had come in and how much each had bought. Because he had no records, Peter was not able to determine his sales.

Peter could figure out where some of the money he had paid out went. He had receipts from the two truck drivers and the salesman. But he did not know how much he had paid out to the boys helping him, as he took the money from the cash box to pay the boys, and he did not keep a record of how much he paid them.

Peter had no way of knowing if he had the correct amount of cash in his cash box. He wondered if there was any way he could keep track of his cash.

Questions for Discussion

1. Why would Peter want to keep track of his cash?
2. How could Peter keep track of his cash?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB21 BANKING

INSTRUCTOR'S GUIDE

OVERVIEW

The safeguarding of the cash of the business and the keeping of accurate records are two of the small business manager's most important jobs. The best method of safeguarding cash is the use of a bank account. A bank account with a bank or credit union allows the manager to check the accuracy of his records by comparing the bank statement to his books.

In this lesson the student is shown how to open a bank account, make deposits, write cheques, record deposits and cheques into the books of the business, and prepare a Bank Reconciliation Statement in order to check the accuracy of the business's books.

It is important that the student learn how to correctly enter deposits and cheques into the books of the business.

OBJECTIVES

1. Given the necessary information, the students will complete a deposit slip and record the deposit in the Cash Payments Journal and on the Daily Cash Sheet.
2. Given the necessary information, the students will complete a cheque and record the cheque in the Cash Payments Journal.
3. Given the necessary information, the students will prepare a Bank Reconciliation Statement.

RESOURCES REQUIRED

1. Projectual FAB21-1, "The Deposit Slip"
2. Projectual FAB21-2, "The Cheque"
3. Projectual FAB21-3, "Bank Reconciliation Statement"
4. Exercise FAB21-1, "Recording Deposits"
5. Exercise FAB21-2, "Recording Cheques"
6. Exercise FAB21-3, "Bank Reconciliation Statement"
7. Deposit slips for each student
8. Blank cheques for each student
9. Multi-column Journal sheets for each student
10. Ledger sheets for each student

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to show you how to:

1. Open up a bank account
2. Prepare deposit slips and cheques
3. Record the banking transactions in your books
4. Prepare a Bank Reconciliation Statement.

INTRODUCTION

It is very important to protect the cash that your business has available for use. It is unwise to keep large amounts of cash on hand because you run a great risk of losing it.

A bank account is a safe place to keep your money. You can withdraw your money at any time by simply writing a cheque.

Not only is a bank account a safe place to keep your money, but also the records that you receive from the bank at regular intervals will aid you in checking your record-keeping.

OBJECTIVE 1: GIVEN THE NECESSARY INFORMATION, THE STUDENTS WILL COMPLETE A DEPOSIT SLIP AND RECORD THE DEPOSIT IN THE CASH PAYMENTS JOURNAL AND ON THE DAILY CASH SHEET.

Stimulus

2. Ask the students what services a bank or credit union offers. List the students' answers on a flip chart. They may include:

   a. Savings accounts - regular and special
   b. Personal chequing accounts
   c. Current accounts
   d. Joint accounts
   e. Mail accounts
   f. Payment of accounts
   g. Money transfer
   h. Money orders
   i. Bank drafts
   j. Travellers cheques
   k. Letters of credit
   l. Foreign exchange
   m. Safe deposit boxes
   n. Safekeeping
   o. Night depository
   p. Mortgages
   q. Personal loans
   r. Business loans
   s. Home improvement loans
   t. Farm loans
   u. Collections
   v. Financial advice

Clarify Problem

3. One of the services mentioned is the use of accounts for chequing and or saving money. Ask how many of the students have accounts or have at one time or another deposited money in a bank or credit union. Ask those that have deposited money in a bank or credit union how they went about depositing this money. Discuss, having the student explain the steps taken to make the deposit:

   a. gather together the coins, currency and cheques to be deposited
   b. fill out the deposit slip
   c. take the deposit to the bank or credit union or mail it
   d. receive a receipt from the clerk.

Provide Information

4. Read Sections 1, 2, 3, and 4 of the Readings.

CONTENT

1. Why Use a Bank Account

Carrying large amounts of cash in your business is dangerous. If fire, theft, or loss occur, you would have no way to recover the cash. How can you prevent this from happening to you and still have funds available to pay your debts when they become due?

Perhaps the best way to safe-guard your cash and yet be able to use this cash when required is to open a bank account. You deposit money to this account and are able to withdraw it through the use of cheques whenever you wish.

Not only does a bank account offer a safe place to keep your money, but it provides you with statements you can use to check the accuracy of your records.

2. Opening a Bank Account

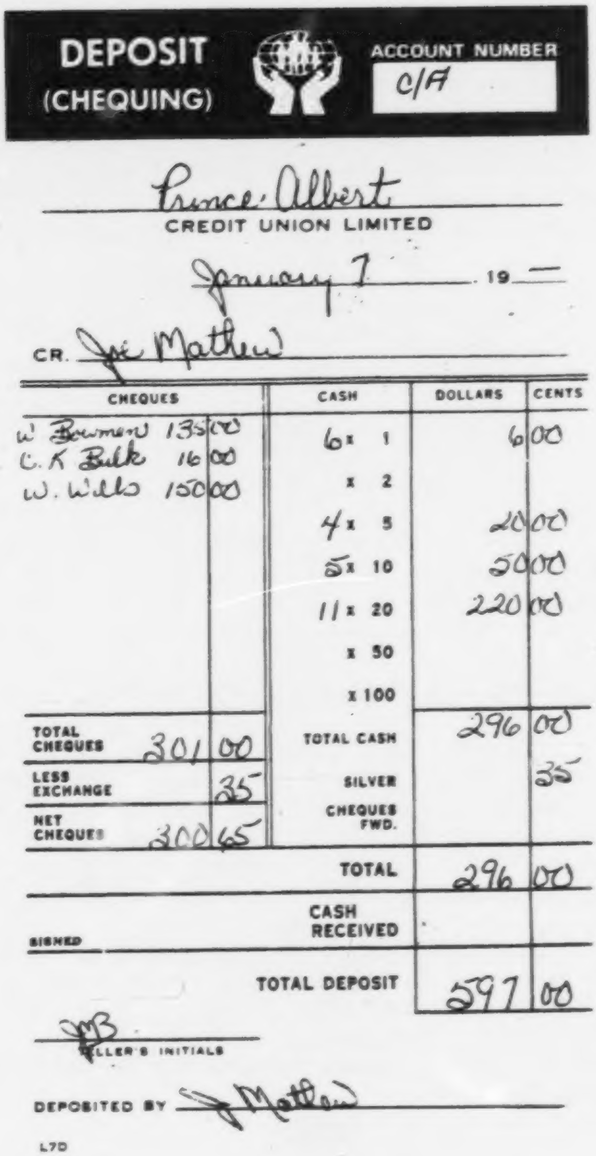
The first step in opening a bank account is to decide how much you want to deposit. This amount will depend on two things; the amount of cash you have on hand, the amount you feel you will need in an ordinary day's business for small expenditures. There is no RIGHT amount for every business because the cash receipts and expenditures vary from day-to-day. You should try to keep on hand the lowest amount of cash which will meet your expected needs.

When opening an account, an official of the bank or credit union will first approve your deposit. Then you will be asked to sign your name on a Signature Card. This card will be used to check your signature on all business documents dealing with your bank account. If you want to enable other persons to sign cheques on your account, the bank or credit union must receive written authority and an example of their signatures.

3. Making a Deposit

A deposit is the cash and/or cheques you are going to put into your bank account. To make a deposit you complete a form called a Deposit Slip. Generally you receive a copy of the deposit slip and the bank or credit union keeps the original for its records. A deposit slip is shown on the following page.

FAB21



DEPOSIT
(CHEQUING)

ACCOUNT NUMBER C/A

Prince Albert
CREDIT UNION LIMITED

January 7 19—

CR. Joe Mathew

CHEQUES			CASH	DOLLARS	CENTS
W. Bowman	135	00	6 x 1	6	00
C. K Bulk	16	00	x 2		
W. Wills	150	00	4 x 5	20	00
			5 x 10	50	00
			11 x 20	220	00
			x 50		
			x 100		
TOTAL CHEQUES	301	00	TOTAL CASH	296	00
LESS EXCHANGE		35	SILVER		35
NET CHEQUES	300	65	CHEQUES FWD.		
			TOTAL	296	00
SIGNED			CASH RECEIVED		
			TOTAL DEPOSIT	597	00

JMB
TELLER'S INITIALS

DEPOSITED BY J Mathew

L7D

NOTE: The deposit slip shown is only one of the several forms that are available from the several banks and credit unions. However the method of filling out all deposit slips is basically the same.

On the deposit slip you list all the items (cash and cheques) that you wish to deposit. The date of the deposit and the name of the bank account are written on the deposit slip. In this way you know how much was deposited, when it was deposited, and to what bank account it was deposited.

On the deposit slip illustrated you can see that the deposit was made on January 7, 19__, to the bank account of Joe Mathew. The deposit was made up of the following items:

35 cents in change
6 one dollar bills
4 five dollar bills
5 ten dollar bills
11 twenty dollar bills
cheque of W. W. Bowmen for $135.00
cheque of C. K. Bulk for $16.00
cheque of W. Wills for $150.00

There was 35 cents deducted from the deposit to pay for exchange on the cheque of W. Wills. The total deposit was therefore, $597.00.

4. Recording Bank Deposits Into the Books

You must record all money that leaves your business in order to keep track of your money. In lesson FAB19, "Recording Cash Payments", you learned how to set up and use a Cash Payment Journal in order to record all cash payments by the business. In this lesson you will use this Journal in order to record all deposits in your bank account.

The Cash Payment Journal would be basically the same as the one used in FAB19 except you will now add an additional column called Bank Cr. In this column will be recorded all transactions involving your bank account. The column headed Bank Cr. would appear immediately to the right of the column entitled Cash Cr.

ACC/PAY DR.	OWNER'S DRAWING DR.	EXPENSES DR.	MISC DR.	CASH CR.	BANK CR.

When a deposit is made, it is recorded in the Cash Payments Journal as follows:

a. In the Date column, record the date the deposit is made.
b. In the Description column, write the word deposit.
c. In the Cash Cr. column, enter the amount of the deposit.
d. In the Bank Cr. column, enter the amount of the deposit, but enclose in brackets like the following to indicate it is a debit.

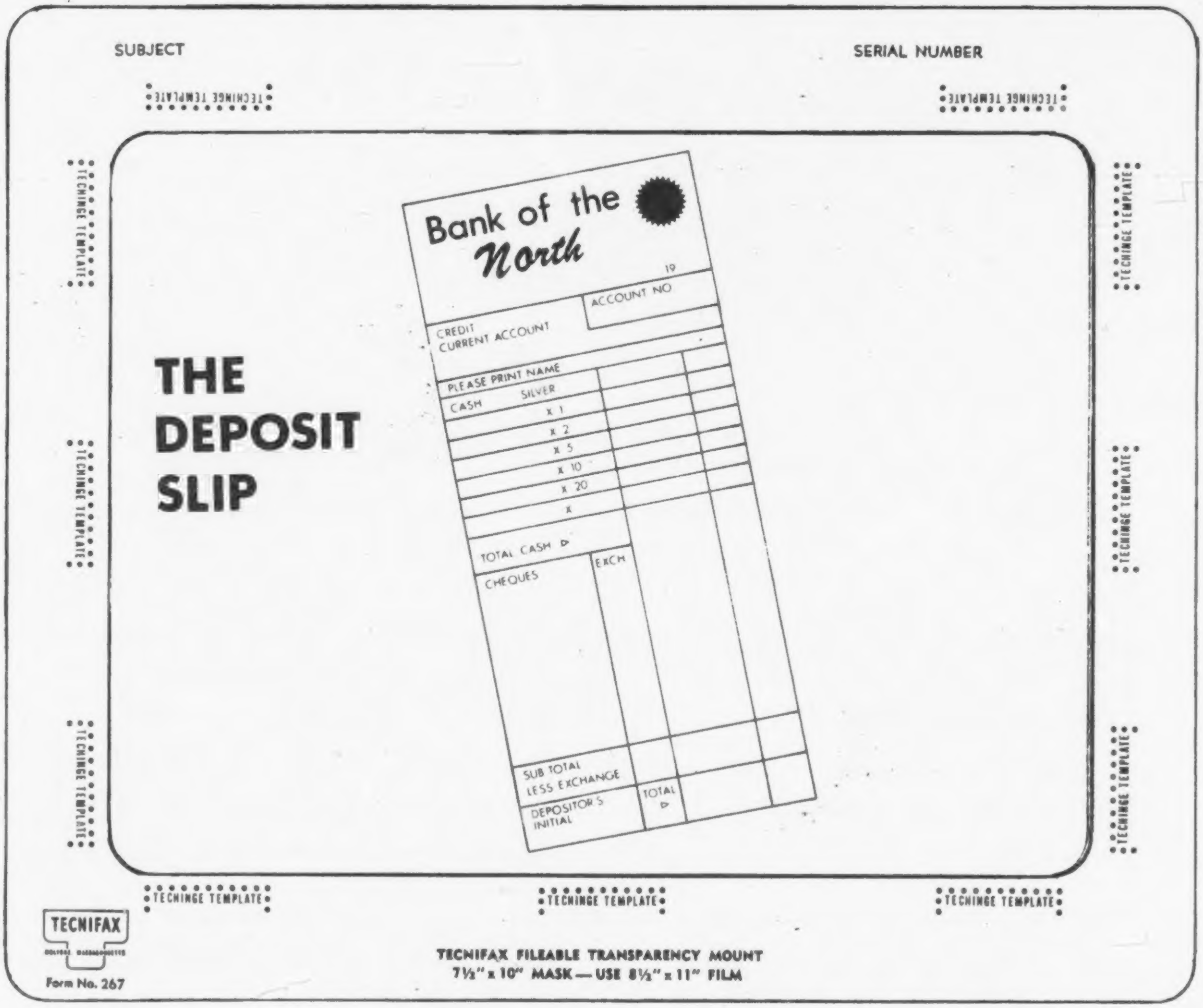
Amount of Deposit

Joe Mathew's deposit of $597.00 would appear in the Cash Payments Journal as follows:

DATE	DESCRIPTION	ACC/PA	CASH CR.	BANK CR.	✓
19–					
Jan 7	Deposit		597 00	<597 00>	

5. Show Projectual FAB21-1, "The Deposit Slip". Using several examples, show how the information is entered on the deposit slip.

FAB21-1 THE DEPOSIT SLIP



SUBJECT

SERIAL NUMBER

TECHINGE TEMPLATE

THE DEPOSIT SLIP

Bank of the *North*

19

ACCOUNT NO

CREDIT
CURRENT ACCOUNT

PLEASE PRINT NAME

CASH SILVER

x 1

x 2

x 5

x 10

x 20

x

TOTAL CASH ▷

CHEQUES

EXCH

SUB TOTAL

LESS EXCHANGE

DEPOSITOR'S INITIAL

TOTAL ▷

TECNIFAX

Form No. 267

TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

Indicator

6. Hand out Exercise FAB21-1, "Recording Deposits". Hand out deposit slips, paper for Daily Cash Sheets, and multi-column Journal sheets. Instruct the students to complete the exercise using the information provided. Have one or several students put their work on the flip chart so that answers can be compared.

Daily Cash Sheet
July 22

Receipts

$119.70	Cash Sales	$
2.34	Sales Tax	
90.00	Received on Account	
	Expenses	4.00
	Deposit	115.00
$212.04	TOTAL	119.00

Cash Beginning	$103.16
Total Receipts	212.04
	315.20
Total Payments	119.00
Cash on Hand	$196.20

Cash in Till

Coin = 2.20
44 x 1 = 44.00
6 x 5 = 30.00
4 x 10 = 40.00
4 x 20 = 80.00

Total 196.20

Cash on Hand	$196.20
Cash in Till	196.20
Over/Short	-0-

Front of Daily Cash Sheet

FAB21

	Cash Sales
	$ 31.97
	16.71
	3.08
	33.65
	19.25
	1.05
	13.99
Total	$119.70

Sales Tax
$ 1.68
.50
.16
$ 2.34

Expenses	
Delivery	$2.50
Repair windows	1.50
	$4.00

Deposit $115.00

Back of Daily Cash Sheet

FAB21

CREDIT UNION LIMITED

July 22 19 –

CR. C. Kline

CHEQUES			CASH	DOLLARS	CENTS
T Bail	13	75	13 x 1	13	00
W McKay	16	25	x 2		
			x 5		
			3 x 10	30	00
			2 x 20	40	00
			x 50		
			x 100		
TOTAL CHEQUES	30	00	TOTAL CASH	83	00
LESS EXCHANGE			SILVER	2	00
NET CHEQUES			CHEQUES FWD.		
			TOTAL	85	00
SIGNED			CASH RECEIVED		
			TOTAL DEPOSIT	115	00

RR
TELLER'S INITIALS

DEPOSITED BY C. Kline

L7D

CASH PAYMENTS JOURNAL PAGE 1

DATE	DESCRIPTION	ACC. PAY (DR)	OWNER'S DRAWINGS (DR)	EXPENSES (DR)	MISC. (DR)	CASH (CR)	BANK (CR)
19–							
July 22	Deposit					115 00	(115 00)
22	Delivery			2 50		2 50	
22	Repair (windows)			1 50		1 50	

OBJECTIVE 2: GIVEN THE NECESSARY INFORMATION, THE STUDENTS WILL COMPLETE A CHEQUE AND RECORD THE CHEQUE IN THE CASH PAYMENTS JOURNAL.

Stimulus

1. Show Projectual FAB21-2, "The Cheque".

Clarify Problem

2. Ask the students if one of them would identify the parts of the cheque and explain how a cheque is completed.

Provide Information

3. Read Sections 5 and 6 of the Readings. Using Projectual FAB21-2, show how the cheque is filled out.

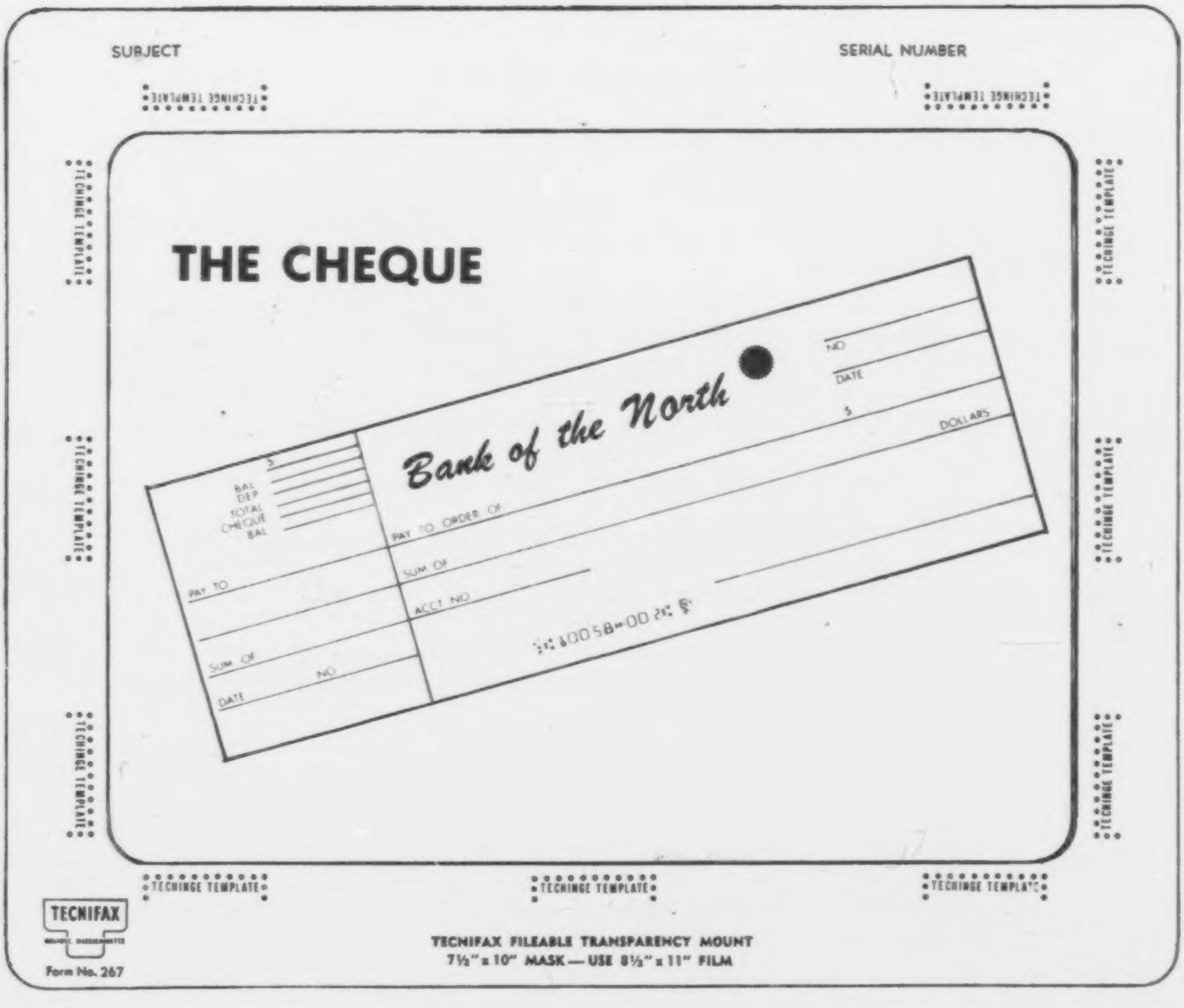
5. Payment by Cheque

The amounts of cash deposited in the bank or credit union may be taken out of your account by writing a cheque signed by you or by someone authorized to sign for you. The cash will then be paid by the bank to whomever the cheque is made out (if your bank account contains sufficient funds.)

If you have a bank account it is wise to make most payments by cheque. Cheques will be accepted as payment by most people and businesses. As most of your payments will have to either be sent by mail or delivered in person, you will avoid the risk of losing the cash on its route to the creditor's office. A cheque can be safely sent through the mail because it can be cashed only by the person or business to which the cheque is made payable. In addition, upon being notified by the creditor that he has not received your payment, you can notify the bank or credit union to refuse payment of the lost cheque and immediately send the creditors another cheque. If you make payment in person you would simply have to write out a cheque when you get to the creditor's office. In this way you will avoid carrying large amounts of cash.

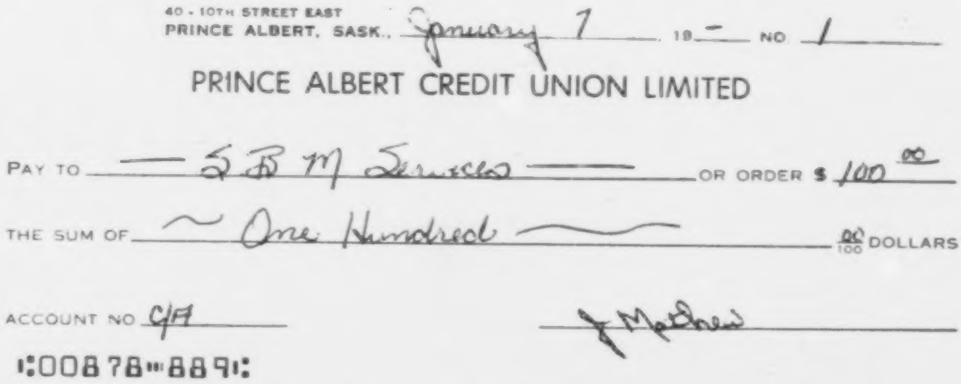
A final reason for paying by cheque is the control that cheques offer you in checking the accuracy of your records. At regular intervals the bank will return to you all cheques and withdrawal slips which were used to withdraw money from your account. By using these cheques and withdrawal slips you

FAB21-2 THE CHEQUE


SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
THE CHEQUE
Bank of the North
NO
DATE
$
DOLLARS
PAY TO ORDER OF
SUM OF
ACCT NO
$
BAL
DEP
TOTAL
CHEQUE
BAL
PAY TO
SUM OF
DATE
NO
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

can check the accuracy of your records. Later in this lesson you will learn how to prepare a statement called a Bank Reconciliation Statement which deals with using cheques and withdrawal slips to check the accuracy of your records.

6. Making Out a Cheque



40 - 10TH STREET EAST
PRINCE ALBERT, SASK., January 7 19— NO 1

PRINCE ALBERT CREDIT UNION LIMITED

PAY TO — S B M Services — OR ORDER $ 100 00

THE SUM OF ~ One Hundred — 00/100 DOLLARS

ACCOUNT NO C/A

J Mathew

⑆00878⑈889⑆

The cheque must show the date, the name of the payee (the person or the business to whom the cheque is being paid), the amount that is being paid (once in numbers and once words), the signature of the payor (the person who signs the cheque), and finally the bank account the cheque is drawn against.

In the above cheque is shown the following:

a. The date the cheque can be cashed is January 7, 19__
b. The payee is S.B.M. Services
c. The amount being paid is $100.00
d. The payor is Joe Mathew
e. The cheque is drawn on a current account (c/a)
f. This is the first cheque drawn against the bank account so it is numbered 1.

You will notice that a line has been drawn on each side of the payee and of the amount. This has been done to prevent changes being made to the cheque. For example a dishonest person could change S.B.M. Services to S.B.M. Services United and cash the cheque. The amount, one hundred dollars, could be changed to one hundred and eighty dollars (by adding the words, "and eighty" and changing 100 to 180).

4. Read Section 7 of the Readings. Illustrate the procedure outlined in Readings on the flip chart.

7. Recording Cheques into the Books

All payments by cheque are recorded into your Cash Payments Journal. Suppose that cheque #1, drawn up by Joe Mathew for the sum of $100.00 and made payable to S.B.M. Services, was for the payment of an expense . The entry to the Cash Payments Journal would be as follows:

DATE	DESCRIPTION	EXPENSES DR.	MISC. DR.	CASH CR.	BANK CR.
1972.					
Jan. 7.	Deposit			597 00	{597 00}
Jan. 7.	S.B.M. Services #1	100 00			100 00

To enter a cheque:

a. Write the date that the cheque is issued in the Date column.

b. Write the payee and cheque number in the Description column.

c. Write the amount of the cheque in the proper Debit column.

d. Write the amount of the cheque in the Bank Cr. column.

At the end of each day post the total of the day's cheques from the Bank Cr. column to the account in the General Ledger entitled bank. By posting the total of the cheques written daily to the "bank" account in the General Ledger you will know how much money will be on deposit in your bank account after the cheques are cashed by the payees.

Indicator

5. Hand out Exercise FAB21-2, "Recording Cheques". Hand out cheque blanks to each student. Instruct the students to prepare cheques for the payments in the Exercise and to record these cheques in the Cash Payments Journal (use the Journal from FAB21-1).

CASH PAYMENTS JOURNAL

DATE		DESCRIPTION	ACC/PAY (DR)	OWNER'S DRAWINGS (DR)	EXPENSES (DR)	MISC (DR)	CASH (CR)	BANK (CR)
19—								
July	22	Deposit					115 00	⟨115 00⟩
	22	Delivery			2 50		2 50	
	22	Repairs Window			1 50		1 50	
	23	T.C. Lee #1	25 00					25 00
	23	W. S. Toms #2			150 00			150 00
	23	C & C Storage #3			75 00			75 00
	23	W.W Wholesale Ltd #4	75 00					75 00
	23	Self #5		15 00				15 00
	23	Central Distributors #6				15 00		15 00
	23	AV Wholesalers Ltd #7	75 00				575 00	75 00
	23	Deposit						⟨575 00⟩

OBJECTIVE 3: GIVEN THE NECESSARY INFORMATION, THE STUDENTS WILL PREPARE A BANK RECONCILIATION STATEMENT.

Stimulus

1. Ask: "What information is shown on a bank statement which isn't recorded on the books of a business?"

Clarify Problem

2. Explain the following to the students:

   a. Banks and credit unions make use of automatic debits in order to charge your account with various types of charges. For example, there is a service charge on each cheque processed through an account. There are also interest charges which can automatically be put through an account by agreement of both parties. Other items which might be charged back to an account could be non-sufficient funds cheques, and cheques which weren't paid for other reasons (difference of figures and letters, non-existence of account, or stale-dated items). All these charges to an account will not be recorded on the business's books in the normal monthly entries; therefore, the balance in the account will differ from the balance on the books.

   b. The other major difference between the balance shown on the books of the business and the true bank balance occurs because of the time lapse between recording on the books and receipt of cash items by the bank or credit union. For example, a cheque that is made out and recorded on your books today may not be presented to the bank for payment for two or three weeks. Naturally, if you check your account tomorrow the amount in the bank account is going to differ from the book balance by the amount of the cheque.

Provide Information

3. Read Sections 8 and 9 of the Readings. Discuss.

8. The Bank Statement

Each month the bank or credit union with which you deal will send you a statement of your bank account and the cheques paid during the month. The paid cheques returned with the statement are called cancelled cheques. (They have been stamped PAID and also bear the date of payment).

The bank statement shown on the following page is the type of Ledger account the bank or credit union keeps for each depositor. The statement shows the balance on deposit at the beginning of the month, the deposits made during the month, the cheques paid out, any other changes, and the new balance at the end of the month. The deposits are shown in the bank deposit under 'credits'. The cheques and other charges are shown in the bank statement under 'debits'.

The same entries are recorded on your Cash Payments Journal as on the bank and credit union's books, but from different points of view. A deposit in your books is a debit, but in the bank or credit union's books it is a credit. A cheque or other charge in your books is a credit, but in the bank or credit union's books it is a debit.

In your books a deposit is a debit because it is an asset of your business. When you deposit money into the bank or credit union you still own it but the bank or credit union records the deposit as a credit in its books because it owes you the money you deposit.

The cheques and other charges are recorded as credits in your books but recorded as debits on the bank or credit union's books. Each cheque or charge that the bank or credit union puts through your bank account decreases the amount of money which it owes you.

9. Explanation of Characters on the Statement

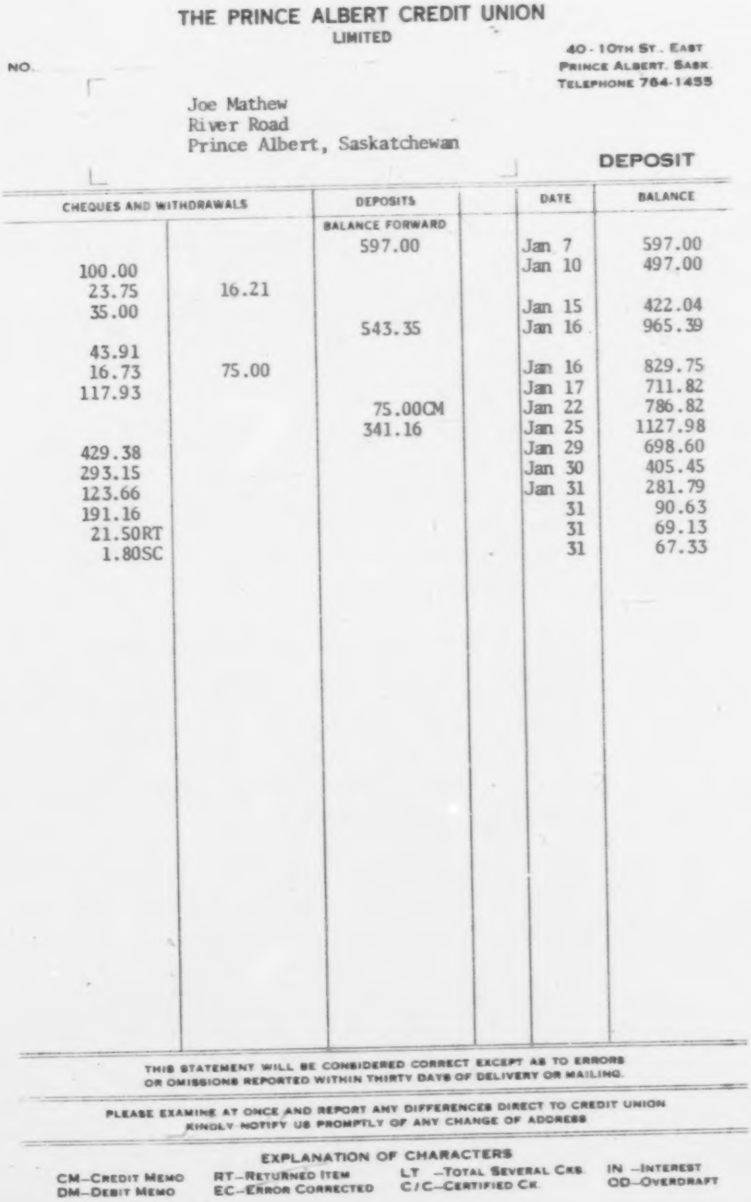
a. C/C -- Certified Item
This means you had the bank make up a certified cheque. A certified cheque is one that is guaranteed by the bank or credit union. When you have a certified cheque made up, the bank or credit union takes the money for the cheque out of your bank account immediately and it is put into a special account in order to pay the certified cheque when it is presented for payment.

b. CM -- Credit Memo
This is a deposit to your bank account by you or by someone paying a debt they owe you.

c. D -- Loan or Discount
This is money deposited to your bank account from a loan you obtained from the bank or credit union. It might also be money deposited from the sale of a Note Receivable (a

FAB21

Below is the Bank Statement which Joe Mathew received from the bank at the end of January.



THE PRINCE ALBERT CREDIT UNION
LIMITED

40 - 10TH ST. EAST
PRINCE ALBERT, SASK.
TELEPHONE 764-1455

NO.

Joe Mathew
River Road
Prince Albert, Saskatchewan

DEPOSIT

CHEQUES AND WITHDRAWALS		DEPOSITS		DATE	BALANCE
		BALANCE FORWARD			
		597.00		Jan 7	597.00
100.00				Jan 10	497.00
23.75	16.21				
35.00				Jan 15	422.04
		543.35		Jan 16	965.39
43.91					
16.73	75.00			Jan 16	829.75
117.93				Jan 17	711.82
		75.00CM		Jan 22	786.82
		341.16		Jan 25	1127.98
429.38				Jan 29	698.60
293.15				Jan 30	405.45
123.66				Jan 31	281.79
191.16				31	90.63
21.50RT				31	69.13
1.80SC				31	67.33

THIS STATEMENT WILL BE CONSIDERED CORRECT EXCEPT AS TO ERRORS OR OMISSIONS REPORTED WITHIN THIRTY DAYS OF DELIVERY OR MAILING.

PLEASE EXAMINE AT ONCE AND REPORT ANY DIFFERENCES DIRECT TO CREDIT UNION
KINDLY NOTIFY US PROMPTLY OF ANY CHANGE OF ADDRESS

EXPLANATION OF CHARACTERS

CM–CREDIT MEMO
DM–DEBIT MEMO
RT–RETURNED ITEM
EC–ERROR CORRECTED
LT –TOTAL SEVERAL CKS.
C/C–CERTIFIED CK.
IN –INTEREST
OD–OVERDRAFT

promissory note, etc.) to the bank or credit union.

d. DM -- Debit Memo
This money, taken out of your bank account by the bank or credit union, could be an automatic-payment of a loan or some bill you have arranged for the bank to deduct and remit payment for.

e. EC -- Error Corrected
This is any entry the bank or credit union makes to correct a mistake they made in posting your bank account.

f. IN -- Interest
This is interest deducted for a loan you have at the bank or credit union; it could also be interest paid by the bank or credit union on your account. Because the bank or credit union uses your money while it is on deposit, they pay you interest for letting them use it.

g. LT -- Total of Service Charges
LT stands for the total amount of service charges put through your bank account during a stated period.

h. OD -- Overdraft
If you write cheques for more than you have in your account you have an overdraft. The overdraft is the amount that the cheques are over the money in your account. For example, if the bank or credit union paid cheques totaling $150.00 and you only had $100.00 in your bank account the overdraft would be $50.00.

Before you overdraw on your account you should make arrangements with the manager of the bank or credit union. Overdrawing your account is like obtaining a loan; the manager and yourself must agree to the terms such as rate of payment and interest to be charged. If arrangements are not made, the bank or credit union will not pay (will bounce) your cheques.

i. R.T. -- Returned Item
This is a cheque which had been made out to you or your business that was returned to your bank or credit union. The cheque was returned because it was N.S.F. (non-sufficient funds) or had something wrong with it. Because the bank or credit union had already credited your account for the amount of the cheque or had given you cash for the cheque, it charges this amount to your account. In other words, the bank or credit union collects from your bank account the money it paid out on the cheque. The bank or credit union will return this cheque to you immediately so that you can collect from the payor (the person who wrote the faulty cheque).

j. SC -- Service Charge
This is a charge for cashing cheques and handling your other banking needs.

4. Show Projectual FAB21-3, "Bank Reconciliation Statement", then read Section 10 of the Readings, pointing out how each item on the statement is determined. Discuss.

10. The Bank Reconciliation Statement

To check your bank or credit union balance in your General Ledger with the balance shown on your bank statement, you make up a special statement. This statement is called the Bank Reconciliation Statement.

To make up this statement for the month you need:

a. the bank or credit union statement
b. cancelled cheques for that month
c. the Bank Reconciliation Statement for the previous month
d. your books.

Here are the steps you should follow to make your Bank Reconciliation Statement:

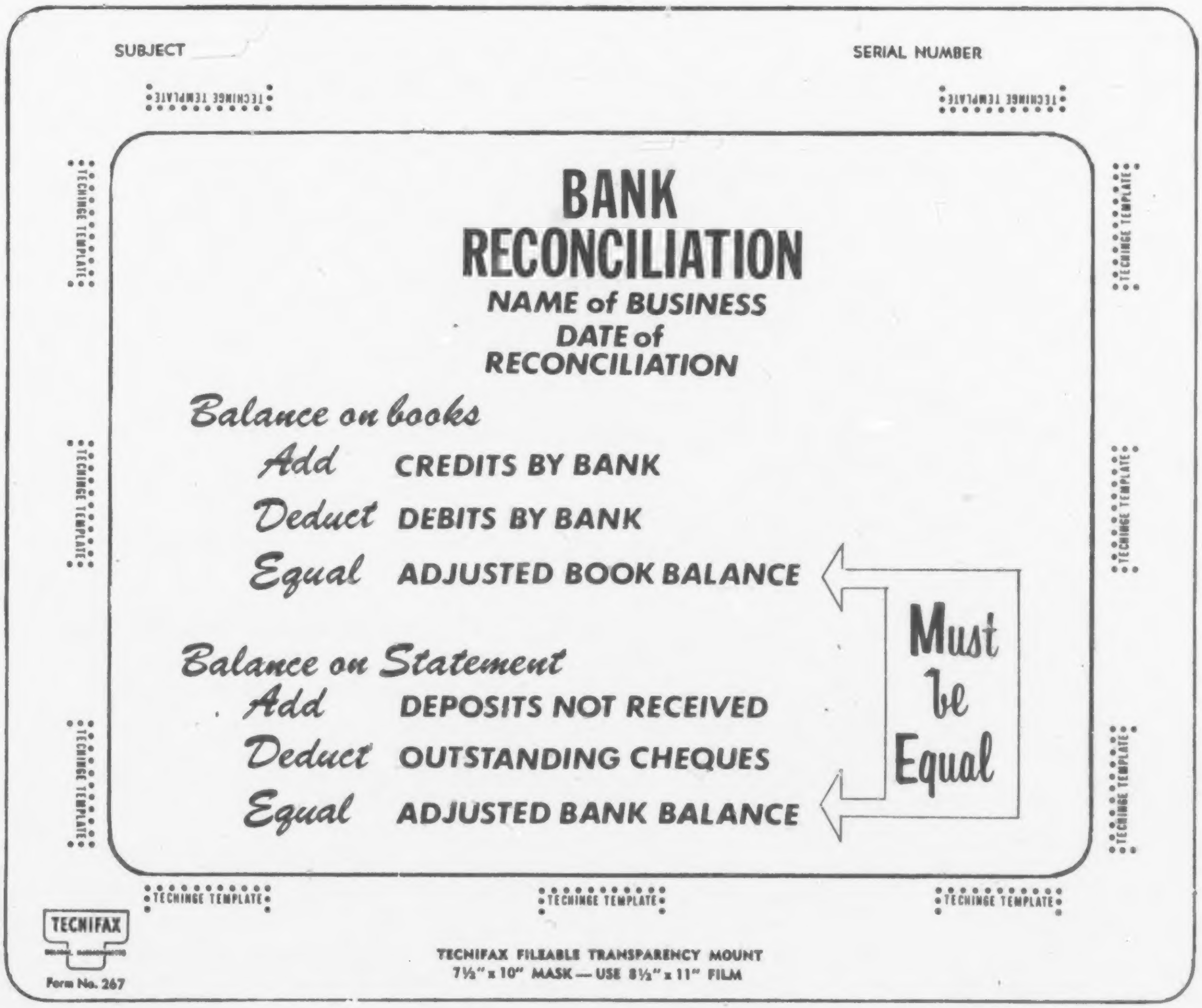
a. Using last month's Bank Reconciliation Statement, check to see if the bank has received the deposits which were not recorded on last month's bank statement.

b. Next, check to see if any of the outstanding cheques (uncashed cheques) from last month are still outstanding. You do this by comparing the numbers on your returned cancelled cheques and the outstanding numbers on the last Bank Reconciliation Statement. If any are still outstanding, mark down the number on a blank sheet of paper under the heading "Outstanding Cheques".

c. Now use your Cash Payments Journal for this month and the bank statements you have just received:

    (1) Check to see if the bank or credit union has credited any amounts to your bank account (this is noted by C/M on the bank statement). If the bank or credit union has, mark down the amounts on the blank sheet of paper under the heading, "Credits by Bank".

FAB21-3 BANK RECONCILIATION STATEMENT


SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

BANK RECONCILIATION

NAME of BUSINESS

DATE of RECONCILIATION

Balance on books

Add CREDITS BY BANK

Deduct DEBITS BY BANK

Equal ADJUSTED BOOK BALANCE

Balance on Statement

Add DEPOSITS NOT RECEIVED

Deduct OUTSTANDING CHEQUES

Equal ADJUSTED BANK BALANCE

Must be Equal

(2) Next check through the debit column of the bank statement to see if the bank has deducted any money from your bank account. If the bank or credit union has taken money out of your bank account, mark down the reason for the deduction and the amount of the deduction under the heading "Deductions by Bank".

d. Now you are ready to adjust your book balance and your bank balance.

(1) To the end of month balance in the General Ledger Account Book ADD the total of "Credits by Bank"; next SUBTRACT the total of "Deductions by Bank". You now have your Adjusted Book Balance.

(2) Next, check through your Cash Payments Journal to see if you have made entries for deposits that the bank or credit union has not yet received. If there are any, mark the amounts on the blank sheet under the heading, "Deposits in Transit".

(3) Next, check to see if you have written cheques which the bank or credit union has not yet cashed. If there are any, write the number of the cheque and the amount of the cheque under the heading, "Outstanding Cheques".

(4) Now you are ready to adjust the bank balance on the bank statement. To the end of month balance on the bank statement, ADD the total of the "Deposits in Transit". Next SUBTRACT the total of the "Outstanding Cheques". The new total is called the Adjusted Bank Balance.

THE ADJUSTED BOOK BALANCE MUST EQUAL THE ADJUSTED BANK BALANCE

Joe Mathew's Bank Reconciliation Statement for January 31, 19__ is shown on the following page.

The information used to prepare the Bank Reconciliation Statement came from three places:

a. The Bank Statement
b. The Cash Payments Journal
c. The cash account in the General Ledger.

You saw the Bank Statement in Section 8 of these Readings. The Cash Payments Journal and the cash account of the General Ledger are shown on the pages following Joe Mathew's Bank Reconciliation Statement.

FAB21

Joe Mathew
Bank Reconciliation Statement
January 31, 19 _

Balance on books		$116.48
Add: Credits from bank		75.00
		191.48
Deduct: Service Charges	$1.80	
Returned Item	21.50	23.30
Adjusted Book Balance		$168.18
Balance on bank statement		$67.33
Add: Deposits in transit		206.17
		273.50
Deduct: Outstanding cheques		
#13	$10.01	
#14	74.31	
#15	21.00	105.33
Adjusted Bank Balance		$168.18

FAB21

CASH PAYMENTS JOURNAL PAGE 1

DATE	DESCRIPTION	ACCOUNTS PAYABLE DR.	OWNER'S DRAWINGS DR.	EXPENSES DR.	MISC. DR.	CASH CR.	BANK CR.
19–							
Jan 7.	Deposit					597 00	<597 00>
Jan 7.	S.B.M. Services 1.			100 00 ✓			100 00 ✓
Jan 7.	J. Kane 2.			16 21 ✓			16 21 ✓
Jan 9.	Smith & Smith 3.	35 00					35 00 ✓
Jan 10	Self		10 00			10 00	
Jan 15	Mary Mathew 4		75 00				75 00 ✓
Jan 15	T. John 5			23 75			23 75 ✓
Jan 15	M Black Ltd 5	43 91					43 91 ✓
Jan 15	Jackson & Sons 6	117 93					117 93 ✓
Jan 16	Deposit					543 35	<543 35>
Jan 17	Smith & Smith 7				429 35		429 35 ✓
Jan 22	Mano Meats 8				293 15		293 15 ✓
Jan 23.	Paid for Hides (cash)				175 00	175 00	
Jan 24.	Deposit 9					341 16	<341 16>
Jan 25	Purchases Sales Ltd				123 66		123 66 ✓
Jan 26	Mary Macks Fixings	191 16					191 16 ✓
Jan 28	Power 12	16 73					16 73 ✓
Jan 28	Telephone 13	10 01					10 01
Jan 28	Sawyers Ltd 14				74 31		74 31
Jan 29	W.W. Wilson			35 16		35 16	
Jan 30	Deposit					206 17	<206 17>
Jan 31	T.G. Jones Ltd 15				21 00		21 00
		414 74	85 00	175 12	1116 50	1907 84	<116 44>

FAB21

ACCOUNT NO.
SHEET NO. 1
NAME Cash
TERMS
ADDRESS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	—									
Jan	7	Deposit			597 00			Dr		597 00
	7	Cheque					116 21	Dr		480 79
	9	Cheque					35 00	Dr		445 79
	15	Cheque					260 59	Dr		185 20
	16	Deposit			543 35			Dr		728 55
	17	Cheque					429 38	Dr		299 17
	22	Cheque					293 15	Dr		6 02
	24	Deposit			341 16			Dr		347 18
	25	Cheque					123 66	Dr		223 52
	26	Cheque					191 16	Dr		32 36
	28	Cheque					101 05	Dr		68 69
	30	Deposit			206 17			Dr		137 48
	31	Cheque					21 00	Dr		116 48

The balance in the cash account of January 31 was $116.48. This was entered as the "Balance on Books" amount in the Bank Reconciliation Statement. To this amount, all amounts that the bank or credit union had deposited into the bank account and were not recorded in the Cash Payments Journal were added. These amounts are noted on the Bank Statement by the characters C/M (credit memo). The credits from the Bank during the month of January were $75.00.

	Balance on Books		$116.48
Add	Credits from Bank		75.00
			$191.48
DEDUCT	Service Charges	$ 1.80	
	Returned Item	21.50	23.30
	Adjusted Book Balance		$168.18

The adjusted book balance indicates the balance that would appear in the cash account after all the January bank account items are entered in the Cash Payments Journal.

The next step is to adjust the balance on the Bank Statement. To do this Joe used the Bank Statement and the Cash Payments Journal. First the balance on the Bank Statement ($67.33) is recorded. To this is added all deposits which have been sent by Joe but not received by the bank. Joe had to compare the deposits recorded in the Bank Statement and those that had been sent but not yet received or recorded by the bank. There had been a deposit of $206.17 sent on January 30 that was recorded in the Cash Payments Journal but not yet received or recorded by the bank.

	Balance in Bank Statement	$ 67.33
ADD	Deposits in Transit	206.17
		$273.50

Next all cheques that have been written and recorded in the Cash Payments Journal but not yet paid by the bank had to be deducted. These we call Outstanding Cheques. The cheque number and the amount were recorded on the Bank Reconciliation Statement. The total of the Outstanding Cheques was then subtrated from the total of balance on the Bank Statement plus Deposits in Transit in order to get an Adjusted Bank Balance.

	Balance on Bank Statement	$ 67.33
ADD	Deposits in Transit	206.17
		$273.50

Outstanding Cheques		
#13	$10.01	
#14	74.31	
#15	21.00	105.32
Adjusted Bank Balance		$168.18

The Adjusted Bank Balance shows how much money will be in the bank account after all deposits and cheques have been received or paid by the bank. The Adjusted Bank Balance must equal the Adjusted Book Balance.

Indicator

5. Hand out Exercise FAB21-3, "Bank Reconciliation Statement". Hand out Ledger sheets, and instruct the students to use the information in Exercises FAB21-1, 21-2 and 21-3 to prepare a Bank Reconciliation Statement as of July 23.

NOTE: The students must prepare the bank account of the General Ledger before preparing the Bank Reconciliation Statement.

Bank Account in the General Ledger

ACCOUNT NO. ____________ SHEET NO. ____________
NAME Bank ____________ TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	-									
July	22	Deposit			115 00			Dr		115 00
	23	#1					25 00			
	23	#2					150 00			
	23	#3					75 00			
	23	#4					75 00			
	23	#5					15 00			
	23	#6					15 00			
	23	#7					75 00			
	23	Deposit			575 00					260 00

Bank Reconciliation Statement
July 23, 19__

Balance on Books		$260.00
Add: Credits from Bank		---
		$260.00
Deduct: Service Charge		1.50
Adjusted Book Balance		$258.50
Balance on Bank Statement		$498.50
Add: Deposits in Transit		---
		$498.50
Deduct: Outstanding Cheques		
#3	$75.00	
#4	75.00	
#6	15.00	
#7	75.00	240.00
Adjusted Bank Balance		$258.50

6. Read Section 11 of the Readings and discuss.

11. Summary

In order to protect the cash used by your business, it is wise to use a bank account. Using a bank account has two main advantages:

a. It is the safest place to keep large amounts of money

b. At the end of each month you will receive a Bank Statement which can be used to check the accuracy of your cash records.

A bank account can be opened at any bank or credit union. When opening an account you will be asked to sign a card authorizing the bank or credit union to pay cheques written on it when signed by yourself or someone you have authorized to sign cheques for you.

FAB21

Money is put into your bank account by filling out a deposit slip. The deposit slip and the cash and cheques you want to deposit into your account are either given or sent to the bank or credit union. The deposits we recorded in your Cash Payments Journal by debiting the Bank Cr. column and crediting the Cash Cr. column.

Money may be taken out of your bank account by writing a cheque. The cheque must be signed by you or someone authorized to sign for you. The bank or credit union will pay the amount of the cheque to the person or business named as the payee. Cheques are recorded in your Cash Payments Journal by debiting the proper dr. column and crediting the Bank Cr. column. The date, number and payee of each cheque must be recorded.

At the end of each month when the Bank Statement is received, you should prepare a Bank Reconciliation Statement. This statement allows you to check the accuracy of your recording and shows you how much money is on account after all cheques have been paid and all deposits received.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB21 BANKING

EXERCISE FAB21 - 1

RECORDING DEPOSITS

Using the following information prepare a Daily Cash Sheet and a Deposit Slip for the day's cash transactions. Enter all the necessary information into a Cash Payments Journal.

1. Cash on Hand at the beginning of business on July 22 was $103.16.

2. Cash sales during July 22:

Total	Sales Tax
$33.65	$1.68
17.21	.50
3.24	.16
33.65	-0-
19.25	-0-
1.05	-0-
13.99	-0-

3. Cash received on account during July 22:

W. W. Tees	$15.00
Tom C. Williams	25.00
Kay McKay	50.00

4. Cash payments during July 22:

   a. Paid delivery boy $2.50
   b. Paid T. C. Jones $1.50 for repairing window.

5. A deposit for $115.00 was made at the close of business July 22. The deposit had the following coins, currency and cheques in it:

6	nickels
2	dimes
6	quarters
13	one dollar bills
3	ten dollar bills
2	twenty dollar bills

Cheque of T. Ball for $13.75
Cheque of W. McKay for $16.25

6. At the end of the day the following cash was in the till:

2.20	in coins
44	one dollar bills
6	five dollar bills
4	ten dollar bills
4	twenty dollar bills

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB21 BANKING

EXERCISE FAB21 - 2

RECORDING CHEQUES

Using the information given below, prepare cheques for the payments listed and record these cheques in the Cash Payments Journal.

Date: July 23

Deposit at end of day: $575.00

Cheques:
- #1 T.C. Lee, $25.00 on account payable
- #2 W.G. Toms, $150.00 for repairs on truck
- #3 C & C Garage, $75.00 for oil
- #4 W.W. Wholesale Ltd., $75.00 on account payable
- #5 Cheque to yourself for $15.00
- #6 Central Distributors, $15.00 for cash purchase of merchandise
- #7 A.V. Wholesalers Ltd., $75.00 on account payable.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB21 BANKING

EXERCISE FAB21 - 3

BANK RECONCILIATION STATEMENT

Using the Cash Payments Journal prepared in Exercises FAB21-1 and FAB21-2, prepare the bank account for the General Ledger; then prepare a Bank Reconciliation Statement using the information on the Bank Statement below:

Your Statement
In Account with Any Bank
Anyplace

Debits	Credits	Date	Balance
Balance brought forward			nil
	115.00	July 22	115.00
25.00		23	90.00
150.00		23	OD 60.00
15.00		23	OD 75.00
	575.00	23	500.00
1.50 SC		23	498.50

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB22 THE GENERAL JOURNAL

INSTRUCTOR'S GUIDE

OVERVIEW

The Journals of a business are often referred to as the "books of original entry" or the "day books". Every transaction that occurs in the business must be recorded in a Journal from the original documents of that transaction. The Journal in which the transaction is recorded will depend on the nature of the transaction. Purchases of merchandise on account are recorded into the Purchases Journal. Sales on account (credit sales) are recorded in the Sales Journal. Cash receipts are recorded in the Cash Receipts Journal, and cash payments are recorded in the Cash Payments Journal. While the majority of the transactions that occur in a business will be recorded in these Special Journals, some transactions will not meet the criteria for recording in the Special Journals. Therefore, a General Journal is used. The types of transactions recorded in a General Journal are:

1. Opening entries - entries used to start a bookkeeping system.
2. Correcting entries - entries used to correct errors in the books after a Trial Balance has been prepared.
3. Adjusting entries - entries used to reflect changes in assets and liabilities because of such items as depreciation, bad debts, or fulfillment of a prepaid contract.
4. Closing entries - entries used to close the books at the end of an accounting period.

Opening entries and closing entries have been covered in previous lessons (FAB4 and FAB11). Correcting entries are illustrated in this lesson. Adjusting entries are dealt with briefly in this lesson; a more complete examination will be done in lesson FAB24, "Making Adjustments".

FAB22

The General Journal is used to record those transactions which cannot be recorded in one of the Special Journals because of the criteria set down for recording in the Special Journals. All transactions of a business must be recorded; therefore, the bookkeeping system makes use of the Special Journals and the General Journal to enable the busi- to record all transactions as they occur.

OBJECTIVE

Given a list of business transactions, the student will be able to identify the Journal in which each transaction would be recorded.

RESOURCES REQUIRED

1. Exercise FAB22-1, "Business Transactions"

METHODOLOGY

1. Hand out the Readings, and read the Purpose and Introduction.

PURPOSE

The purpose of this lesson is to discuss the use of the General Journal.

INTRODUCTION

When you first started learning about bookkeeping systems, all beginning balances and business transactions were recorded into one book called a General Journal. As you progressed it became very time-consuming to record each and every transaction into this one Journal, so you started to use various Special Journals.

1. Cash inflows are recorded into a Cash Receipts Journal.
2. Cash outflows are recorded into a Cash Payments Journal.
3. The purchase of merchandise or services on credit are recorded in the Purchases Journal.

4. The sale of merchandise or services on credit are recorded in the Sales Journal.

These Journals handle the majority of the transactions you have to record, but they cannot handle them all. There are certain miscellaneous transactions which do not meet the rules for recording in one of the Special Journals. You therefore have need of a Journal into which you can record the miscellaneous transactions of a business. For this purpose you use what is called a General Journal. The types of transactions recorded in it are as follows:

1. Opening entries
2. Correcting entries
3. Adjusting entries
4. Closing entries.

After completing this lesson you will have learned how to use the five Journals involved in the bookkeeping system. These Journals are.

1. Cash Receipts Journal
2. Cash Payments Journal
3. Purchases Journal
4. Sales Journal
5. General Journal.

By knowing what is recorded in each of these Journals and how it is recorded, you should be able to set up a bookkeeping system to meet the needs of your particular business situation.

OBJECTIVE: GIVEN A LIST OF BUSINESS TRANSACTIONS, THE STUDENT WILL BE ABLE TO IDENTIFY THE JOURNAL IN WHICH EACH TRANSACTION WOULD BE RECORDED.

Stimulus

2. Write the following titles on the top of the flip chart sheets (one title to one sheet.)

   a. Purchases Journal
   b. Sales Journal
   c. Cash Payments Journal
   d. Cash Receipts Journal
   e. General Journal

   Ask the students to identify the type of transactions that would be recorded in each of these Journals.

FAB22

Clarify Problem

3. Ask the students to give examples of each type of transaction mentioned. Write the type of transaction and the examples under the title of the appropriate Journal. (Examples below.)

   a. Purchases Journal

      Transaction: Purchase of merchandise on account

      Example:

      (1) Received merchandise costing $100.00 on credit

Debit Purchases	$100.00
Credit Accounts Payable	100.00

   b. Sales Journal

      Transaction: Sale of merchandise on account (credit sales)

      Example:

      (1) A credit sale of $50.00

Debit Accounts Receivable	$50.00
Credit Credit Sales	50.00

   c. Cash Payments Journal

      Transaction: Payment of money by either cash or cheque

      Example:

      (1) Paid $100.00 by cheque owed on Account Payable

Debit Accounts Payable	$100.00
Credit Bank	100.00

      (2) Paid $50.00 cash on Account Payable

Debit Accounts Payable	$ 50.00
Credit Cash	50.00

      (3) Paid $15.00 for Expenses

Debit Expenses	$15.00
Credit Bank	15.00

      (4) Withdrew $25.00 for personal use

Debit Owner's Worth	$25.00
Credit Cash	25.00

      (5) Bought an asset for $100.00, paid by cheque

Debit Asset	$100.00
Credit Bank	100.00

d. Cash Receipts Journal

Transaction: The receipt of money either in the form of cash or a bank deposit.

Examples:

(1) Loan of $1,000.00 from the bank put into bank account

Debit Bank	$1,000.00
Credit Loan	1,000.00

(2) $300.00 cash sales for the day

Debit Cash	$300.00
Credit Cash Sales	300.00

(3) Invested additional $500.00 by owner. Deposited in bank.

Debit Bank	$500.00
Credit Owner's Worth	500.00

(4) Bank deposit of $150.00

Debit Bank	$150.00
Credit Cash	150.00

e. General Journal

Transaction: Any entry which cannot be recorded in a Special Journal.

Types: Opening entries
Correcting entries
Adjusting entries
Closing entries

Ask the students to give examples of opening entries, correcting entries, adjusting entries, and closing entries. List the examples on the flip chart headed General Journal that was prepared in point 1 above. If examples are not forthcoming, proceed to point 4 below. If examples are put forward, discuss them and then proceed to point 4 below.

4. Read Section 1 of the Readings. Refer to lesson FAB4, "Starting the Bookkeeping System" to clarify the procedures for recording opening entries.

CONTENT

1. Opening Entries

Opening entries are the amounts owed or owned at the time the books are started. They are those entries used to start a set of books. In lessons FAB3, "What is a Business Worth?" and FAB4, "Starting the Bookkeeping System" you discussed the way in which the dollar figures for what the business owned and what the business owed were entered into a General Journal in order to start a set of books for that business.

To review the recording of opening entries into the General Journal and into the General Ledger, let's look at the following example:

> Matt Kramer had been operating his business for two months. Although Matt had no books for the business, he had kept track of the items owned, the items owed, the purchases, the expenses, etc. by writing them into a scribbler.
>
> Matt had decided to set up a set of books for the business. The first thing he did was to determine how much was owned and owed by the business. He listed the assets, liabilities, and net worth on a Balance Sheet. The values were determined using the scribbler in which he had recorded all transactions. He then recorded the Balance Sheet in his General Journal.

Matt Kramer
Balance Sheet
as of July 31, 1972

Assets		Liabilities and Net Worth	
Cash	$ 173.71	Liabilities	
Bank	1,131.63	Accounts Payable	$2,161.17
Accounts Receivable	761.18	Loan	6,022.90
Merchandise	3,315.16		
Land	350.00	Total Liabilities	$ 8,184.07
Building	3,316.91		
Equipment	1,236.19	Net Worth	
		Investment	
		M. Kramer	2,100.00
Total Assets	$10,284.07	Total Liabilities & Net Worth	$10,284.07

General Journal Entries

General Journal Page 1

DATE	DESCRIPTION	POST REF.	DEBIT	CREDIT
1972.				
July 31	Cash	1	173 71	
July 31	Bank	3	1131 65	
July 31.	Accounts Receivable	5	761 18	
July 31.	Merchandise	10	3315 16	
July 31.	Land	15	350 00	
July 31	Building	16	3316 91	
July 31	Equipment	17	1236 19	
July 31	Accounts Payable	20		216 17
July 31	Loan	25		6022 90
July 31.	Investment	30		2100 00
	To record the July Balance Sheet.			

After the items on the starting Balance Sheet are recorded into the General Journal, the General Journal is used to post the General Ledger accounts. Each item and its value in the General Journal opens a General Ledger account. For example, the General Journal entry of $173.71 for cash opens the cash account in the General Ledger. The debit entry of $173.71 in the General Journal is debited to the cash account in the General Ledger.

General Journal Entry

July 31.	Cash		173 71	

General Ledger Entry

ACCOUNT NO. ________ SHEET NO. 1

NAME Cash TERMS ________

ADDRESS ________ CREDIT LIMIT ________

DATE	ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	Dr or Cr	✓	BALANCE
1972									
July 31	Opening Balance	J1		173 71			Dr		173 71

FAB22

All debit entries in the General Journal are entered as debits in the General Ledger accounts.

All credit entries in the General Journal are entered as credits in the General Ledger account.

5. Read Section 2 of the Readings.

2. Correcting Entries

It is not always possible to completely eliminate mistakes in your records. If a mistake has been made it must be corrected as soon as possible. One of the rules of bookkeeping is that mistakes are not erased or scratched out; rather a correcting entry is put through the books. The correcting entry is recorded in the General Journal and then posted to the General Ledger accounts in which the error occurred.

For example, suppose that on August 5, 1972, W. Tims, a credit customer, reported to Matt Kramer that a purchase on account for the amount of $17.65 had been charged to his account on July 28, 1972. He had not made the purchase nor had he received the merchandise. On checking the accounts receivable sales slips for that date (July 28, 1972), Matt Kramer found that it was not W. Tims but U. Tims who had purchased the merchandise on account. Matt checked both these accounts receivable in the Accounts Receivable Ledger and found that W. Tims had been charged with the purchase but U. Tims had not. Therefore, the individual accounts receivable accounts showed the wrong balances, but the total accounts receivable balance (as shown on the accounts receivable control account in the General Ledger) was correct. In order to correct the balances of the individual accounts receivable accounts, Matt Kramer made the following entry in his General Journal.

Aug. 5.	U. Tims		17 65	
Aug. 5	W. Tims			17 65
Correcting Posting of June 28 Accounts Receivable				

Any error in any Journal or Ledger, if not found until after the Trial Balance has been prepared, is corrected by making an entry in the General Journal. Entries made to correct errors are called correcting entries.

6. Illustrate the procedure for recording correcting entries by doing a number of examples.

   a. $100.00 credit sale charged to William Brown on September 28 by mistake. Should have been charged to William Baum.

   b. Debited $110.00 on September 16 to the Accounts Payable owed to C.T. Hall Ltd. by mistake. Should have debited C.T. Paul Ltd.

   c. Debited $25.00 to power account. Should have only debited $15.00 to power and $10.00 to heat account. Date of original entry September 11.

General Journal Page 1.

DATE	DESCRIPTION	POST REF.	DEBIT	CREDIT
19—				
Sept. 31	Heat		10 00	
Sept. 31	Power			10 00
Correcting Entry of Sept. 11				
Sept. 31	C.T. Paul Ltd		110 00	
Sept. 31	C.T. Hall Ltd			110 00
Correcting Entry of Sept. 16				
	Accounts Payable			
Sept. 31	William Brown		100 00	
Sept. 31	William Brown			100 00
Correcting Entry of Sept. 28				
	Accounts Receivable			

7. Read Section 3 of the Readings. Point out to the students that adjusting entries will be covered in lesson FAB24, "Making Adjustments".

> 3. Adjusting Entries
>
> An adjusting entry may be made at any time that an account needs adjustment. Adjusting entries refer to the periodic entries made at the end of an accounting period to bring the Ledger accounts up to date. There are four common types of adjustments which will be discussed in detail in

lesson FAB24, "Making Adjustments". The four types may be classified as follows:

a. Merchandise inventory
b. Accrued and deferred items
c. Depreciation
d. Bad Debts.

8. Read Section 4 of the Readings. In order to clarify points in the Readings, refer to lesson FAB11, "Recording Closing Entries".

4. Closing Entries

In lesson FAB11, "Recording Closing Entries", you discussed why closing entries are used and how they are recorded.

At the end of each accounting period, the balance of the sales account, of the purchases account and of each expense account, are transferred (closed) into the profit and loss summary account. The balance of this profit and loss summary account will show the net profit or net loss resulting from the business's operations during the accounting period. The balance of the profit and loss summary is then transferred (closed) in the net worth account in the General Ledger. The closing entries (which transfer the balance of the profit and loss summary account to the net worth account) are all recorded in the General Ledger.

Suppose the balances in Matt Kramer's sales, purchases, and expenses accounts as of August 31, 1972 were:

Sales	Credit balance	$4,673.00
Purchases	Debit balance	2,941.00
Expenses	Debit balance	1,211.00

Aug. 21.	Sales	4673 00	
Aug. 21	Profit & Loss		
	Summary		4673 00
	Closing Entry		
Aug. 31	Profit & Loss		
	Summary	41 52	
Aug. 31	Purchases		2941 00
Aug. 31	Expenses		1211 00
	Closing Entry		
Aug. 31	Profit & Loss		
	Summary	521 00	
Aug. 31	Net Worth		521 00
	Closing Entry.		

After the closing entries are posted the balances in the accounts affected would be:

Sales	balance	nil
Purchases	balance	nil
Expenses	balance	nil
Profit & Loss Summary	balance	nil
Net Worth	balance	increased by $521.00

9. Read Section 5 of the Readings.

5. Summary

All transactions must be recorded in the books of the business. There are Special Journals that can be used to record sales on account, purchases on account, cash receipts and cash payments. Information of a specific nature is recorded into these Special Journals. But not all information can be recorded into the Special Journals, therefore, you must use a General Journal. The types of entries that are recorded into the General Journal are:

a. Opening entries
b. Correcting entries
c. Adjusting entries
d. Closing entries.

> You have now set up and used the books for a complete five-book accounting system. In the next few lessons you will be using these books to prepare Work Sheets and financial statements.

10. Ask one of the students to summarize in his own words the types of transactions that are recorded in a General Journal.

Indicator

11. Hand out Exercise FAB22-1. Instruct the students to complete the exercise. The students are to identify the Journal in which the transaction would be entered by writing beside the transaction one of the following designations:

"P" for Purchases Journal
"S" for Sales Journal
"CP" for Cash Payments Journal
"CR" for Cash Receipts Journal
"J" for General Journal

Answers to Exercise FAB22-1.

CP 1. Purchased merchandise, $546.19, for resale from Glen Bros. Trading. Paid by cheque.

P 2. Received merchandise, $631.31, for resale from Tiller Foods Ltd. Arranged credit: 2/10, n/30.

CR 3. Sold merchandise for cash, $231.33.

CP 4. Deposited $1,211.33 to open a bank account.

J 5. Owner put $1,500.00 into business as starting capital.

J 6. Building valued at $1,791.00 when books set up.

CP 7. Purchased office supplies for $50.00 cash.

CP 8. Paid $129.00 for merchandise received two weeks ago. Paid by cheque.

J 9. Depreciation on equipment calculated at $1,000.00

J 10. Original equipment valued at $10,000.00

CR 11. Received $65.00 on account from T.C. Merle.

J 12. Net profit of $631.00 closed to owner's worth.

J 13. Starting cash balance of $239.31.

S 14. Sold merchandise valued at $411.38 on credit.

CP 15. Cheque of $150.75 issued to Gonzalez and Sons in payment of account.

CP 16. Withdrew $50.00 cash for personal use.

CP 17. Issued cheque of $150.00 to T.C. Jones for wages.

CR 18. Received cheque of $15.00 from Bill Shulz as partial payment of account.

J 19. Original loan from government, $15,000.00.

CP 20. Loan payment $150.00 by cheque #17.

12. After all the students have completed the exercise, have two or more of them volunteer to put their answers on the flip chart. Have students discuss transactions which are not clear and those on the flip charts that differ from those they put on their answer sheets.

    In some cases it might be well to refer back to previous lessons to clarify recording procedures.

    FAB4 - "Starting the Bookkeeping System"
    FAB5 - "Recording Business Transactions"
    FAB6 - "Recording Revenues and Expenses"
    FAB11 - "Recording Closing Entries"
    FAB13 - "Bookkeeping Reviewed"
    FAB14 - "Recording Your Purchases"
    FAB16 - "Recording Credit Sales"
    FAB17 - "Recording Cash Receipts"
    FAB19 - "Recording Cash Payments"
    FAB21 - "Banking"

13. For small businesses that do not wish to use the complete 5 book accounting system, the managers can use a Synoptic Journal which is an expanded General Journal. This Synoptic Journal can have as many columns as are required to record sales, purchases and various expenses. The Synoptic Journal is explained in FAB28.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB22 THE GENERAL JOURNAL

EXERCISE FAB22 - 1

BUSINESS TRANSACTIONS

INSTRUCTIONS

1. Listed below are a number of business transactions. Beside each transaction indicate the Journal in which the transaction would be entered by placing a P, S, CP, CR or J in the blank.

"P"	represents the Purchases Journal
"S"	represents the Sales Journal
"CP"	represents the Cash Payments Journal
"CR"	represents the Cash Receipts Journal
"J"	represents the General Journal.

Journal		Transaction
______	1.	Purchased merchandise worth $546.19 for resale from Glen Bros. Trading. Paid by cheque.
______	2.	Received merchandise worth $631.31 for resale from Tiller Foods Ltd. Arranged credit: 2/10, n/30.
______	3.	Sold merchandise for $231.33 cash.
______	4.	Deposited $1,211.33 to open a bank account.
______	5.	Owner put $1,500.00 into business as starting capital.

FAB22

_______ 6. Building valued at $1,791.00 when books set up.

_______ 7. Purchased office supplies for $50.00 cash.

_______ 8. Paid $129.00 for merchandise received two weeks ago. Paid by cheque.

_______ 9. Depreciation on equipment calculated at $1,000.00.

_______ 10. Original equipment valued at $10,000.00.

_______ 11. Received $65.00 on account from T.C. Merle.

_______ 12. Net profit of $631.00 closed to owner's worth.

_______ 13. Starting cash balance of $239.31.

_______ 14. Sold merchandise valued at $411.38 on credit.

_______ 15. Cheque of $150.75 issued to Gonzalez and Sons in payment of account.

_______ 16. Withdrew $50.00 cash for personal use.

_______ 17. Issued cheque of $150.00 to T.C. Jones for wages.

_______ 18. Received cheque of $15.00 from Bill Shulz as partial payment of account.

_______ 19. Original loan from government worth $15,000.00.

_______ 20. Made loan payment of $150.00 by cheque #17.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB23 INVENTORY

INSTRUCTOR'S GUIDE

OVERVIEW

All goods bought for the purpose of resale are known as merchandise. The value of the merchandise on hand is called the merchandise inventory. The process of determining the present value of the merchandise on hand is referred to as taking inventory.

In this lesson the student is shown how inventory is taken. He is shown how to enter the inventory onto inventory sheets and how to calculate the cost value of the inventory. In the next lesson the student is shown how to make adjustments in his books in order to up-date the value of the inventory account shown on the Balance Sheet and the Profit and Loss Statement

Inventory is one of the largest current assets carried by most businesses. The businessman must take care in recording and calculating the amounts and value of merchandise shown in the records of the business.

OBJECTIVE

The students will calculate the cost value of inventory for use on a Profit and Loss Statement and on a Balance Sheet.

FAB23

RESOURCES REQUIRED

1. Projectual FAB23-1, "Cost of Goods Sold"
2. Projectual FAB23-2, "Inventory Sheet"
3. Exercise FAB23-1, "Calculating the Cost Value of Inventory"
4. Exercise FAB23-2, "Inventory Quantity and Price List"
5. Inventory sheets (blank).

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction with the students.

PURPOSE

In this lesson you will look at what inventory is, how to take inventory, and how it can be valued.

INTRODUCTION

In earlier lessons the inventory value used in preparing the Balance Sheet and the Profit and Loss Statement has been given without showing how this dollar amount was calculated.

The most important assets shown on the Balance Sheet of most businesses are cash, accounts receivable, and inventory. Of the three, inventory is usually the largest. Because of the large size of this asset, an error in valuing inventory may cause a misstatement of the financial condition of the business. An error of 20% in valuing the inventory may have as much effect on the financial statement as forgetting to include the cash or bank accounts on the Balance Sheet. Therefore, it is important that you know how to calculate the value of the inventory of your business.

OBJECTIVE: THE STUDENTS WILL CALCULATE THE COST VALUE OF INVENTORY FOR USE ON A PROFIT AND LOSS STATEMENT AND ON A BALANCE SHEET.

Stimulus

2. Show Projectual FAB23-1, "Cost of Goods Sold"

Clarify Problem

3. Ask the students what the inventory figures represent and how a dollar value is assigned to them. List and discuss the answers given.

Provide Information

4. Read Section 1 of the Readings.

CONTENT

1. What Is Inventory?

One of the largest and most valuable assets of a business is the inventory. Inventory is all the merchandise owned and held for resale in the regular course of business. This includes merchandise you have on the shelves of your business, in the storeroom, and in the warehouse. Since merchandise held for resale will usually be sold within less than year's time, inventory is a current asset. On the Balance Sheet, inventory is listed after accounts receivable.

5. Ask: "What is the first step to be taken in order to find out how much inventory is on hand?" List the answers on the flip chart.

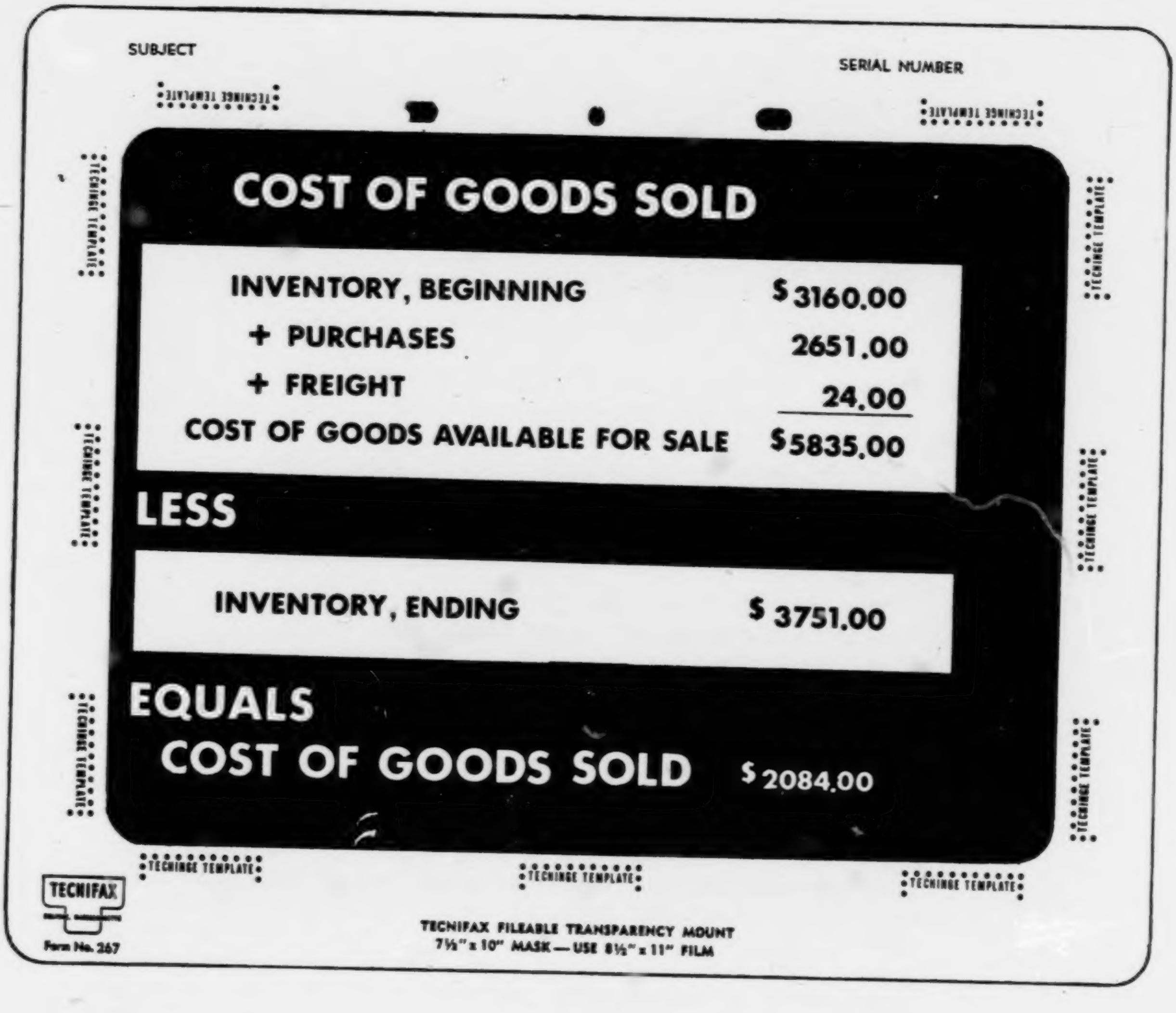
6. Read Section 2 of the Readings.

2. Taking Inventory

When you say you are 'taking inventory' you mean that you are counting the number of each type of merchandise held for resale that your business owns. In most businesses the taking of inventory is done only once a year (at the end of the year). It is usual to take inventory after regular business hours or on a Sunday. You can make a better count when the business is closed to customers because merchandise is not being sold or received.

FAB23

FAB23-1 COST OF GOODS SOLD



SUBJECT

SERIAL NUMBER

COST OF GOODS SOLD

INVENTORY, BEGINNING	$ 3160.00
+ PURCHASES	2651.00
+ FREIGHT	24.00
COST OF GOODS AVAILABLE FOR SALE	$ 5835.00

LESS

INVENTORY, ENDING	$ 3751.00

EQUALS

COST OF GOODS SOLD	$ 2084.00

TECNIFAX

Form No. 267

TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

TECHINGE TEMPLATE

There are different methods of counting merchandise. One of the simplest is to use two-man teams. One member of the team counts and calls the description and quantity of each item. The other persons lists the description and quantity on an inventory sheet.

Suppose that the following items were counted:

340 cans of vegetable soup
200 cans of peas
154 cans of carrots.

The person who counts the merchandise puts his or her initial in the space called "CALLED BY".

The person who marked the inventory sheets puts his or her initial in the space called "ENTERED BY". Below is an example of an inventory sheet.

INVENTORY

SHEET NO. 1
FOLIO
MONTH December 31
YEAR 19 –
DEPARTMENT
LOCATION
CALLED BY L
ENTERED BY B
PRICED BY
EXTENDED BY
EXAMINED BY

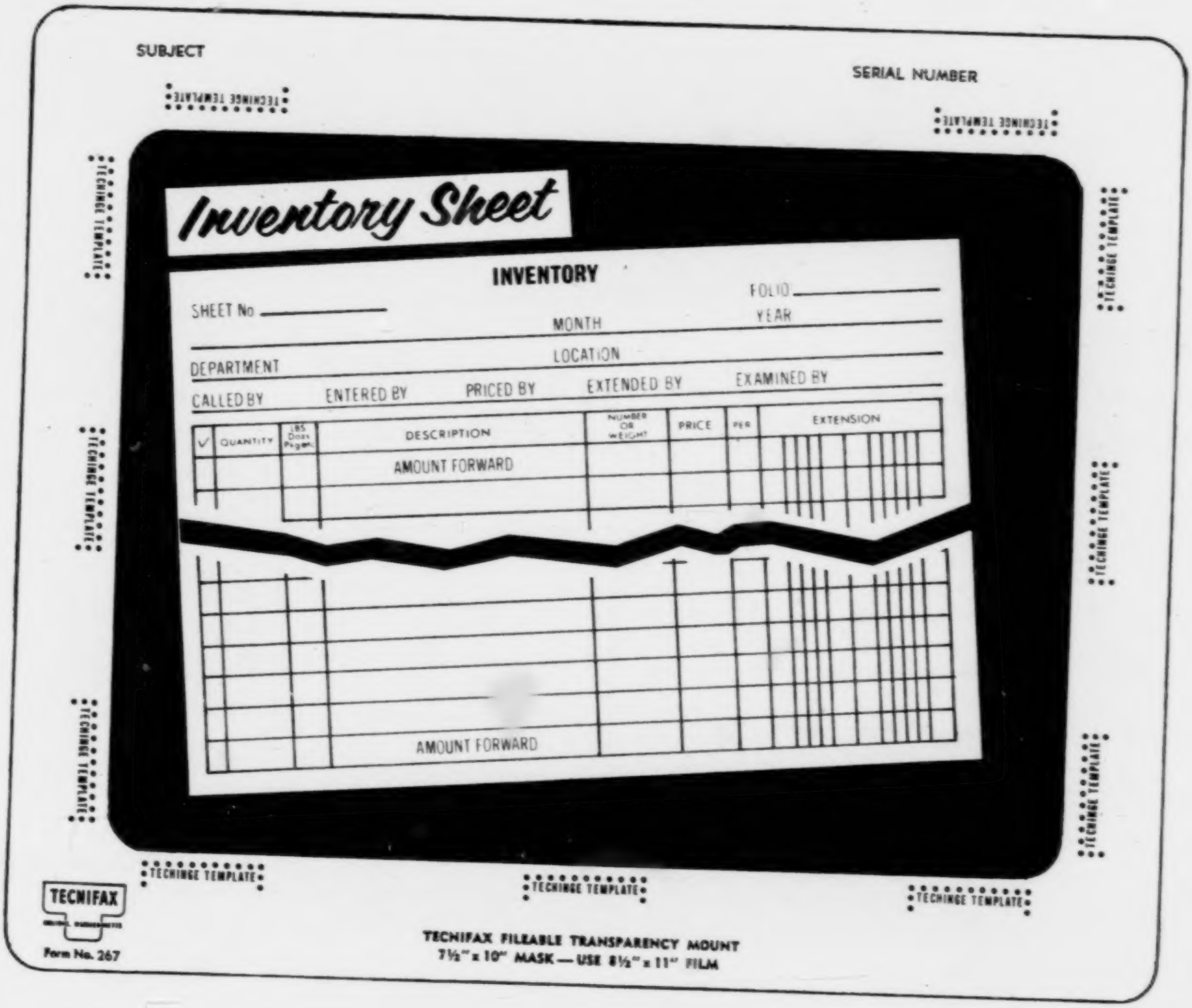
ITEM NO.	DESCRIPTION	✓	QUANTITY	UNIT	PRICE	PER	EXTENSIONS
	Amount Forward						
340	Vegetable Soup						
200	Peas						
154	Carrots						

7. Hand out inventory sheets. Ask: "Once you know the QUANTITY (amount) of inventory you have, how will you calculate the cost value of the inventory?" List the methods of calculating cost value that students suggest on the flip chart (refer to MKT8).

8. Read Section 3 of the Readings. Use projectual FAB23-2, "Inventory Sheet", to illustrate the material, if necessary.

FAB23

FAB23-2 INVENTORY SHEET



SUBJECT

SERIAL NUMBER

Inventory Sheet

INVENTORY

SHEET No ________

FOLIO ________

MONTH

YEAR

DEPARTMENT

LOCATION

CALLED BY

ENTERED BY

PRICED BY

EXTENDED BY

EXAMINED BY

✓	QUANTITY	LBS Doz. Pages	DESCRIPTION	NUMBER OR WEIGHT	PRICE	PER	EXTENSION
			AMOUNT FORWARD				
			AMOUNT FORWARD				

TECHINGE TEMPLATE
TECNIFAX
Form No. 267

TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

3. Finding Inventory Value

Before you can make up your Balance Sheet and Profit and Loss Statement, you have to know the cost value of your inventory. To get this cost value you can either;

- Find the retail (selling price) value first, then calculate the cost value. (That is, you calculate from retail value); or

- Find the cost value directly from your invoices.

a. Calculating Cost Value From Retail Value
This is the method most retail stores use to find the value of their inventory. There are two steps to this method:

(1) Find Retail Value
It is very simple to find the retail (or selling price) value of your inventory.

(a) Mark the quantity, description and price of each type of inventory on the inventory sheet.

(b) Multiply the quantity times the price, and mark the result in the left hand extension column on the inventory sheet.

This gives you the retail value of your inventory.

An example is shown below:

INVENTORY

SHEET NO. 1

FOLIO

MONTH December 31 YEAR 19 —

DEPARTMENT LOCATION

CALLED BY L ENTERED BY B PRICED BY B EXTENDED BY B EXAMINED BY

ITEM NO.	DESCRIPTION	✓	QUANTITY	UNIT	PRICE	PER	RETAIL EXTENSIONS
	Amount Forward						
340	Vegetable Soup				.18		61 20
200	Peas				.35		70 00
154	Carrots				.38		58 52

The person who calculates the retail value puts his initial in the space "PRICED BY" and also in the space "EXTENDED BY".

(2) Calculate Cost Value

Now that you know the retail value of the inventory you can calculate the cost value. To find out what the value of your inventory is at cost you can use a Markup Table like the one shown on the following page.

NOTE: For more complete details on the Markup Tables refer to Marketing lesson MKT7, "Setting Prices".

Here are the steps you should follows:

(a) Find the percentage markup on cost you used when first pricing the products. In the example the markup on cost was 25%.

(b) Now find the corresponding percentage markup on selling price (or retail) from the Markup Table. In the example the markup on retail would therefore be 20%.

(c) Put this percentage markup on selling price (or retail) in the "number or weight" column of your inventory sheet. See inventory sheet below:

INVENTORY

SHEET NO. 1

FOLIO

MONTH

YEAR

DEPARTMENT

LOCATION

CALLED BY

ENTERED BY

PRICED BY

EXTENDED BY

EXAMINED BY

ITEM NO.	DESCRIPTION	✓	QUANTITY	UNIT	PRICE	PER	EXTENSIONS
	Amount Forward		MARKUP ON RETAIL				
340	Vegetable Soup		20%		.18		61 20
200	Peas		20%		.35		70 00
154	Carrots		20%		.38		58 52

FAB23

MARKUP TABLE

Markup as a % of Selling Price (Retail)	Markup as a % of Cost	Markup as a % of Selling Price (or Retail)	Markup as a % of Cost
10.0	11.1	35	53.9
15.0	17.7	35.5	55.0
20.0	25.0	36	56.3
21.0	26.6	37	58.8
22.0	28.2	37.5	60.0
22.5	29.0	38	61.3
23.0	29.9	39	64.0
23.1	30.0	39.5	65.5
24.0	31.6	40.0	66.6
25.0	33.3	41	70.0
26.0	35.0	42	72.4
27.0	37.0	42.8	75.0
27.3	37.5	44.4	80.0
28.0	39.0	46.1	85.0
28.5	40.0	47.5	90.0
29.0	40.9	48.7	95.0
30.0	42.9	50.0	100.0
31.0	45.0		
32.0	47.1		
33.3	50.0		
34.0	51.5		

(d) Multiply (retail value of inventory) times (100% minus percentage markup on selling price) to get the cost value of your inventory. That is,

Cost Value = (100% - % Markup on Retail) x Retail Value.

Here is how the cost values were calculated:

Description	Markup On Retail	Retail Value	Cost Value
Vegetable Soup	20%	\$61.20	(100% - 20%) x 61.20 = 80% x 61.20 = \$48.96
Peas	20%	\$70.00	(100% - 20%) x 70.00 = 80% x 70.00 = \$56.00
Carrots	20%	\$58.52	(100% - 20%) x 58.52 = 80% x 58.52 = \$46.82

(e) After calculating the cost value enter it in the right hand column of the extension columns.

(f) The person who calculates this cost value of inventory puts his initials in the space "EXAMINED BY".

(g) The final thing you do to complete your inventory sheet is total the retail and cost columns.

An example is shown below:

SHEET No. 1

INVENTORY

FOLIO

MONTH December 31 YEAR 19—

DEPARTMENT

LOCATION

CALLED BY A ENTERED BY B PRICED BY B EXTENDED BY B EXAMINED BY B

ITEM NO.	DESCRIPTION	✓	QUANTITY	UNIT	PRICE	PER	EXTENSIONS Retail	Cost
	Amount Forward		Markup on Retail					
340	Vegetable Soup		20%		.18		61 20	48 96
200	Peas		20%		.35		70 00	56 00
154	Carrots		20%		.38		58 52	46 82
	Total						189 72	151 78

You would now use the total cost value when you make up your financial statements (Balance Sheet and Profit and Loss Statement). You would use $151.78 as the cost value for the 'inventory' section of your Balance Sheet.

You would use $151.78 as the cost value for the 'ending inventory' section of your Profit and Loss Statement.

b. Finding Cost Value of Inventory Directly From Invoices

The second way you could find the cost value of your inventory would be to look up the invoice cost of each type of product. You would have to be sure to include both purchases cost and freight cost.

This is a very difficult method to use. You may not be able to find some of your invoices or identify which articles were bought at which price.

Most retail businesses instead find the cost value of their inventory by first finding the retail value.

9. Hand out Exercise FAB23-1, "Calculating the Cost Value of Inventory". Have the students complete the exercise. Be sure to point out how simple it is to go from the total retail value to a total cost value for each department when all goods in that department have the same markup %. Answers:

a. Hardware and Dry Goods Department

% Markup on Retail	Retail Value	Cost Value
33 1/3	$ 25.00	$ 16.67
33 1/3	45.00	30.00
33 1/3	90.00	60.00
33 1/3	210.00	140.00
33 1/3	152.00	101.00
33 1/3	125.00	83.40
33 1/3	420.00	280.00
	$1,127.00	$751.27

b. Grocery Department

% Markup on Retail	Retail Value	Cost Value
20	$120.00	$ 90.00
20	37.50	30.00
20	32.50	26.00
20	80.00	64.00
20	29.40	23.52
20	37.50	30.00
	$336.90	$269.52

10. Read and discuss Section 4 of the Readings.

4. Summary

Inventory is one of the largest and most valuable assets of a business. It is all the merchandise owned and held for resale by the business.

When you 'take inventory' you count the number of items of each type that your business is holding for resale.

To find the inventory value, you must know the cost value of your inventory. You can do this either from the retail value (the simplest method) or directly from your invoices.

Indicator

11. Hand out Exercise FAB23-2, "Inventory Quantity and Price List", and more blank inventory sheets, if needed. Ask students to do the assignment and answer the question in the exercise. Answers:

% Markup on Retail	Retail Value	Cost Value
20	$ 61.20	$ 48.96
20	70.00	56.00
20	58.52	46.82
20	77.48	61.98
20	82.50	66.00
20	44.80	35.84
20	58.80	46.84

FAB23

20	42.24	33.79
20	44.69	35.45
20	11.10	8.88
20	92.25	73.80
20	114.24	91.39
20	68.88	54.88
25	47.68	35.80
25	528.00	396.00
25	499.80	374.85
40	240.50	144.30
40	96.80	58.08
25	83.16	62.37
25	89.65	67.24
25	137.58	103.20
40	58.80	35.28
25	14.95	11.21
25	19.90	14.93
25	37.50	28.13
25	28.00	21.00
25	50.50	37.88
25	71.55	53.66
25	63.84	47.88
25	97.50	73.13
33 1/3	136.40	91.00
33 1/3	105.00	70.00
33 1/3	20.00	13.34
33 1/3	18.00	12.00
33 1/3	46.92	31.20
33 1/3	24.50	16.30
33 1/3	15.60	10.39
33 1/3	27.60	18.40
33 1/3	49.50	33.00
40	366.00	219.60
40	60.00	36.00
33 1/3	108.75	72.50
33 1/3	32.00	21.34
25	2.25	1.69
25	7.02	5.26
20	9.60	7.68
33 1/3	90.50	60.30
20	1.10	.88
20	9.66	7.73
25	7.80	5.85
25	14.95	11.21
	$4,145.56	$2,971.04

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB23 INVENTORY

EXERCISE FAB23 - 1

CALCULATING THE COST VALUE OF INVENTORY

To be sure you understand how to calculate the cost value of inventory, see if you can complete the following inventory sheets.

NOTE:

1. You will have to use the Markup Table given on the following page to find the Percentage Markup on Retail.
2. Each department of the store has its own markup.

   Example:

	Markup on Cost
Hardware and Dry Goods	50%
Groceries	25%

3. Each department has a separate inventory sheet. (This is a handy way to keep track of your inventory.)
4. You can calculate the cost value of each item in the department or you can just calculate the total cost value of all items in the department by using the total retail value. It will be quicker to work with the total figures. Remember, you can only use the total figures if the percentage markup on all items in a department is the same.

You should find the cost value of the inventory in the following exercise using both of the ways suggested. (Calculate the cost value of each item; calculate the total cost value of all items.) You will get the same answer.

FAB23

MARKUP TABLE

Markup as a % of Selling Price (Retail)	Markup as a % of Cost	Markup as a % of Selling Price (or Retail)	Markup as a % of Cost
10.0	11.1	35	53.9
15.0	17.7	35.5	55.0
20.0	25.0	36	56.3
21.0	26.6	37	58.8
22.0	28.2	37.5	60.0
22.5	29.0	38	61.3
23.0	29.9	39	64.0
23.1	30.0	39.5	65.5
24.0	31.6	40.0	66.6
25.0	33.3	41	70.0
26.0	35.0	42	72.4
27.0	37.0	42.8	75.0
27.3	37.5	44.4	80.0
28.0	39.0	46.1	85.0
29.0	40.9	48.7	95.0
30.0	42.9	50.0	100.0
31.0	45.0		
32.0	47.1		
33.3	50.0		
34.0	51.5		

FAB23

INVENTORY

SHEET NO. 1

FOLIO

Bill's General Store MONTH December 31 YEAR 19-

DEPARTMENT Hardware and Dry Goods LOCATION

CALLED BY ENTERED BY PRICED BY EXTENDED BY EXAMINED BY

ITEM NO.	DESCRIPTION	MARKUP ON COST	MARKUP ON RETAIL	✓	QUANTITY	UNIT	PRICE	PER	EXTENSIONS
	Amount Forward								
	Hammers	50%			10		2.50	ea	
	Saws	50%			15		3.00	ea	
	Drills	50%			5		18.00	ea	
	Screwdrivers	50%			40		1.50	ea	
	Pants	50%			30		7.00	ea	
	Shirts	50%			40		3.80	ea	
	Socks	50%			100		1.25	ea	
	Parkas	50%			15		28.00	ea	

INVENTORY

SHEET NO.______ FOLIO______

Bill's General Store MONTH December 31 YEAR 19-

DEPARTMENT Groceries LOCATION

CALLED BY ENTERED BY PRICED BY EXTENDED BY EXAMINED BY

ITEM NO.	DESCRIPTION	MARKUP ON COST	MARKUP ON RETAIL	✓	QUANTITY	UNIT	PRICE	PER	EXTENSIONS
	Amount Forward								
	Sugar	25%			10		12.00	ea 100	
	Sugar	25%			15		2.50	ea 20	
	Sugar	25%			25		1.30	ea 10	
	Flour	25%			10		8.00	ea 100	
	Flour	25%			14		2.10	ea 25	
	Canned Milk	25%			150		25¢	ea	

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON 23 INVENTORY

EXERCISE FAB23 - 2

INVENTORY QUANTITY AND PRICE LIST

Quantity	Description	% Markup on Cost	Retail Price Per Item
340	Soup	25	$ .18
200	Peas	25	.35
154	Carrots	25	.38
298	Beans	25	.26
250	Pork and Beans	25	.33
40	Peanut Butter	25	1.12
60	Raspberry Jam	25	.98
33	Plum Jam	25	1.28
41	Strawberry Jam	25	1.09
10	Marmalade	25	1.11
615	Soft Drinks	25	.15
96	Coffee	25	1.15
56	Tea	25	1.23
16/100's	Flour	33 1/3	2.98/100
480/10's	Salt	33 1/3	1.10/10
510/10's	Sugar	33 1/3	.98/10
370	Cigarettes	66 2/3	.65
170	Tobacco	66 2/3	.55
198	Snuff	33 1/3	.40
163	Cigars	33 1/3	.55
1375	Chocolate Bars	33 1/3	.40
120 lbs.	Hard Candy	66 2/3	.49/lb.
5	Wrenches	33 1/3	2.99
10	Screw Drivers	33 1/3	1.99
150 lbs.	Nails	33 1/3	.25/lb.
100 lbs.	Screws	33 1/3	.28/lb.
10	Work Shirts	33 1/3	5.05
9	Work Pants	33 1/3	7.95
8	Dress Shirts	33 1/3	7.98

10	Dress Pants	33 1/3	9.75
8	Boots	50	17.05
7	Shoes	50	150.00
10	Gloves	50	2.00
12	Mittens	50	1.50
69	Fruit Juice	50	.48
25	Socks	50	.98
24 lbs	Butter	50	.65/lb.
12	Pails	50	2.30
6	Hunting Knives	50	8.25
3	Rifles .3030	66 2/3	122.99
4	Rifles .22	66 2/3	15.00
29	Shells .3030	50	3.75
40	Shells .22 short	50	.80
25	Pencils	33 1/3	.15
36	Pens	33 1/3	.39/2
20	Writing Paper Pads	25	.48
10	Lamps	50	9.05
5	Paper Clips (box)	25	.22
28	Light Bulbs	25	.60/2
2	Mops	33 1/3	3.90
5	Floor Cleaner	33 1/3	2.99

Assignment

1. Fill out inventory sheets for the above items.

Question for Discussion

1. What would the value of ending inventory be on the financial statements for this business?

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB24 ADJUSTMENTS FOR INVENTORY

INSTRUCTOR'S GUIDE

OVERVIEW

In the previous FAB lessons which involved the purchase and sale of merchandise, the examples, exercises, and cases were set up in such a manner that the student did not have to contend with the problem of adjusting the value of the inventory which was carried throughout the accounting period. In lessons MKT7, "Stockkeeping", and FAB23, "Inventory", the student was introduced to a definition of inventory, shown how to control it for buying purchases, and how to determine its cost value to the business. In this lesson the student is shown how to record changes in inventory into the books of the business.

The method recommended for adjusting the inventory is through the profit and loss summary account. This method of adjusting the inventory account is frequently used, especially in small businesses. Its use is particularly advantageous in that, first, the same form may be used regardless of the comparative sizes of the old inventory, the new inventory, and purchases; and second, all the detailed information needed for the preparation of the Profit and Loss Statement is available in one place, the profit and loss summary account. The entries for this method of adjusting the inventory are recorded in the General Ledger and are made by doing the following:

1. Debit the profit and loss summary account the amount of the beginning inventory.
2. Credit the inventory account the amount of the beginning inventory.
3. Debit the inventory account the amount of the ending inventory.
4. Credit the profit and loss summary account the amount of the ending inventory.

To aid making these adjustments and at the same time prepare for making financial statements, you use a Work Sheet. In this lesson the student is shown how to enter the inventory adjustment figures on the Work Sheet and how to use them in preparing the Work Sheet calculations for the Profit and Loss Statement and the Balance Sheet.

The student should become aware that inventories must be adjusted to reflect changes in their value during the accounting period, in order that a true asset figure can be shown.

OBJECTIVE

Given the necessary facts and figures the student will be able to make the necessary entries in the General Journal and the General Ledger to record changes in inventory during a stated accounting period.

RESOURCES REQUIRED

1. Exercise FAB24-1, "Holmes' General Store"
2. Multi-column Journal sheets
3. Ledger sheets.

METHODOLOGY

1. Hand out the Readings.

2. Read the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to record changes in inventory into the books of the business.

INTRODUCTION

A count of the merchandise held for resale is taken at the end of each accounting period. This count of merchandise and the calculation of the dollar value of the merchandise (at cost) is called taking inventory. In the lesson just completed, FAB23, "Inventory", you were shown how to take a physical count of the inventory, how to record the amount of each item onto inventory sheets, and how to calculate the cost value of the inventory recorded on the inventory sheets.

The amount of inventory owned by the business at the end of the accounting period will be different than the amount owned at the beginning of that period. In order to form an accurate picture of what is owned by the business at the end of the accounting period, the amount of inventory owned at that time must be recorded in the books of the business.

Some problems to consider are:

1. How is the inventory on hand at the end of the period recorded into the books of the business?
2. How do you check the books after entering the ending inventory to make sure the books are balanced?
3. What do you use the inventory figures (beginning and ending) for?

OBJECTIVE: GIVEN THE NECESSARY FACTS AND FIGURES, THE STUDENT WILL BE ABLE TO MAKE THE NECESSARY ENTRIES IN THE GENERAL JOURNAL AND GENERAL LEDGER TO RECORD CHANGES IN INVENTORY DURING A STATED ACCOUNTING PERIOD.

Stimulus

3. Tell the students: "In the Introduction it is stated that the amount of inventory owned by the business at the end of the accounting period will be different than the amount owned at the beginning of that period. Why?"

Clarify Problem

4. Discuss the above with the students. Lead into the following questions which are stated at the end of the Introduction to the Readings and discuss:

Question 1: How is the inventory on hand at the end of the period recorded into the books of the business?

Question 2: How do you check the books after entering the ending inventory to make sure they (the books) are balanced?

Question 3: What do you use the inventory figures (beginning and ending) for?

FAB24

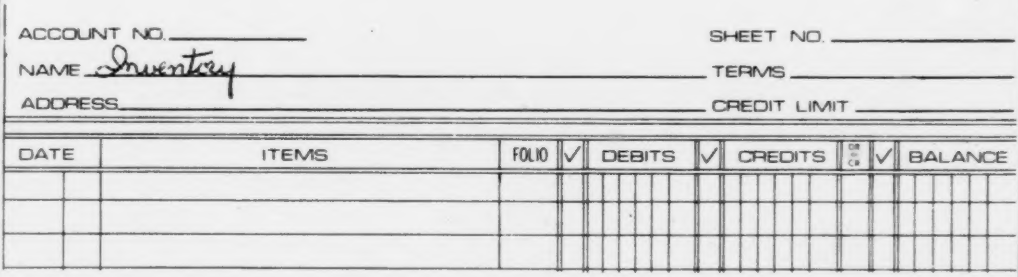
Provide Information

5. Read Section 1 of the Readings.

CONTENT

1. The Inventory Account

The inventory which a business has on hand at anytime is an asset of the business. Like any other asset (such as cash, bank, accounts receivable, land, buildings, or equipment), it must be recorded on the books of the business. When the bookkeeping system is started, inventory must be taken (method described in FAB23) and the cost value must be recorded into the books. In the same way as other opening balances, the beginning inventory is first debited in the General Journal, then the debit entry is posted to a General Ledger account entitled 'inventory'. If there is any inventory in stock at the beginning, the amount of the debit entry for the opening balance is the value of the inventory in stock. If there is no inventory in stock at the beginning, there will be no debit entry, but a General Ledger account for the inventory should be prepared. (The balance in this account will be zero (0) if there is no beginning inventory).



ACCOUNT NO. ____________ SHEET NO. ____________
NAME Inventory ____________ TERMS ____________
ADDRESS ____________ CREDIT LIMIT ____________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR OR CR	✓	BALANCE

The Inventory Account

6. Using an example illustrate the recording of the opening inventory.

Possible Example
Opening balances as of October 1, 1972.

Assets		Liabilities	
Cash	$1,000.00	Loan	$4,000.00
Accounts Receivable	100.00	Net Worth	500.00
Inventory	1,900.00		
Building	800.00		
Equipment	700.00		
Total	$4,500.00	Total	$4,500.00

The General Journal entries would be as follows:

GENERAL JOURNAL PAGE 1

DATE		DESCRIPTION	POST REF	DEBIT	CREDIT
1972					
Oct	1	Cash	1	1000 00	
	1	Accounts Receivable	3	100 00	
	1	Inventory	5	1900 00	
	1	Building	20	800 00	
	1	Equipment	23	700 00	
	1	Loan	30		4000 00
	1	Net Worth	40		500 00
		Opening Balance			

7. Referring back to the question discussed in the stimulus (point 3), ask one of the students to briefly state why inventory needs to be adjusted at the end of an accounting period.

8. Read Section 2 of the Readings. Discuss in relation to the answers suggested in point 3 and point 7.

2. The Need for Adjusting the Inventory Account

The amount of inventory that a business has changes from time to time throughout the accounting period. These changes are caused by two types of business transactions:

a. Purchases of merchandise - increases the amount of inventory on hand.

b. Sale of merchandise - decreases the amount of inventory on hand.

In most small businesses it is very time-consuming to keep a transaction-by-transaction record of the proceedings affecting the inventory account, because of the nature of the prices representing the two types of transactions -- purchases of merchandise and sale of merchandise. Purchases of merchandise are quoted in cost value while the sales of merchandise are quoted in retail (selling price) value. The number of accounts that would have to be debited or credited make this transaction-by-transaction method of recording very awkward to use.

For a purchase of merchandise by cash payment you would have to make the following entries: The cost of merchandise is $5.00

First Entry --	debit purchases	$5.00	
	credit cash		$5.00
Second Entry -	debit inventory	$5.00	
	credit purchases		$5.00

For a sale of merchandise for cash you would have to make the following entries: The selling price is $6.00.

First Entry --	debit cash	$6.00	
	credit sales		$6.00
Second Entry -	debit sales	$6.00	
	credit inventory		$6.00
	credit expenses		.75
	credit profit and loss		.25

As you can see each transaction whether a purchase or a sale of merchandise involves a number of accounts requiring at least two Journal entries. If you make a large number of purchases and a large number of sales during the accounting period, the calculations and entries for recording the inventory account would become very confusing. Therefore, it is easier to make an adjusting entry at the end of the accounting period by using the calculated cost value. For the purposes of controlling the quantity of items held in inventory, it is still necessary to use an inventory control such as examined in the lesson MKT7, "Stockkeeping" but the dollar calculations are done at the end of each accounting period.

9. Hand out multi-column Journal sheets which the students can use to prepare Work Sheets.

10. Using the example shown in point 6 of this Instructor's Guide, have the students prepare a Work Sheet.

Additional Information

a. Cash Sales for October $2,235.00
b. Credit Sales for October $131.00
c. Payments received on account $95.00
d. Credit Purchases $375.00
e. Paid expenses $488.00
f. Cash Purchases $105.00
g. Owe $125.00 on credit purchases made during October
h. Loan payment of $100.00 during October
i. Ending inventory, October 31 is $1,765.00

NOTE: Particular attention should be paid to "Ending Inventory" (point i). The next section of this lesson explains how this is recorded on the Work Sheet.

Cash

	1,000.00		
(a)	2,235.00		
(c)	95.00		
		488.00	(e)
		105.00	(f)
		250.00	(g)
		100.00	(h)
	2,387.00	Balance	

Accounts Receivable

	100.00		
(b)	131.00		
		95.00	(c)
	136.00	Balance	

FAB24

Building	
800.00	

Inventory	
1,900.00	

Equipment	
700.00	

Loan	
	4,000.00
(h) 100.00	

Net Worth	
	500.00

Cash Sales	
	2,235.00 (a)

Credit Sales	
	131.00 (b)

Expenses	
(e) 488.00	

Purchases	
(d) 375.00	
(f) 105.00	
480.00	

Accounts Payable	
	375.00 (d)
(g) 250.00	
	125.00 (g)

NOTE:			
	Accounts Payable	Purchases	$375.00
	Accounts Payable	Balance	125.00
	Accounts Payable	Payments	$250.00

11. Read Section 3 of the Readings. Discuss using the above example.

3. Setting up the Work Sheet for Adjusting Entries

In lesson FAB8 you learned how to set up a Work Sheet. Let's quickly review the steps involved, including an entry for inventory adjustment.

WORK SHEET
AS OF OCTOBER 31, 19

	Trial Balance Debit	Trial Balance Credit	Profit and Loss Debit	Profit and Loss Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	2387 00				2387 00	
Accounts Receivable	136 00				136 00	
Inventory, Oct. 1	1900 00		1900 00			
Inventory, Oct. 31				1765 00	1765 00	
Building	800 00				800 00	
Equipment	700 00				700 00	
Loan		3900 00				3900 00
Net Worth		500 00				500 00
Cash Sales		2235 00		2235 00		
Credit Sales		131 00		131 00		
Expenses	488 00		488 00			
Purchases	480 00		480 00			
Accounts Payable		125 00				125 00
	5891 00	5891 00	2868 00	3131 00	4788 00	4525 00
			263 00			263 00
			3131 00	3131 00	4788 00	4788 00

Step 1
Write the heading on the Work Sheet, stating the name of the business and the date of the end of the period covered by the Work Sheet.

Step 2
List the General Ledger accounts that have balances by number and name, and enter the balances in the Trial Balance columns of the Work Sheet.

Step 3
Enter the Profit and Loss Statement items in the profit and loss columns. The cost and expense items are entered in the debit column and the income items in the credit column.

Step 4
The old inventory (the inventory on hand at the beginning of the period) is entered in the debit profit and loss column because it reduces the profit. Enter the new inventory (the inventory at the end of the period) in the debit balance sheet column and in the credit profit and loss column. The new inventory, which increases profit, must be entered in the credit profit and loss column. The new inventory which is an asset, is also entered in the debit balance column.

Step 5
Enter the Balance Sheet items in the balance sheet columns. The assets are recorded in the debit columns, the liabilities and net worth are recorded in the credit column.

Step 6
Add the profit and loss columns. The difference between the totals of these columns represents either the profit or loss made by the business. If the total of the credit column is larger than the total of the debit column, a profit has been made by the business during the period. The amount of the profit is then entered below the total of the debit column, so that when added to it, the totals of the two columns equal.

If the total of the debit column is larger than the total of the credit column, a loss has resulted from the business's operation during the period. The amount of the loss is then entered below the total of the credit column, so that when added to it, the totals of the two columns are equal.

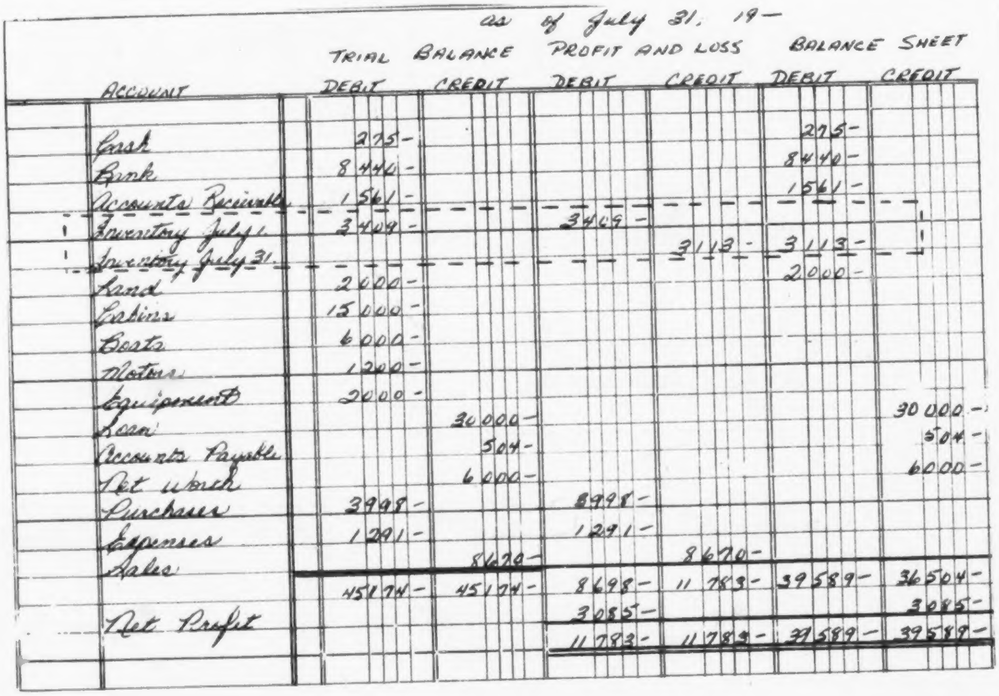
Step 7
Add the balance sheet columns. The amount of the net profit is entered below the total of the credit column of the balance section because it represents the increase to net worth for the period. If when the amount of this profit is added, the totals of the two balance sheet columns are equal, the Work

Sheet is mathematically correct.

If a loss has been suffered, the amount of the loss is entered below the total of the debit balance sheet column. If the amount of this loss added to the debit balance sheet column makes this column equal to the credit balance sheet column, the Work Sheet is mathematically correct.

Below is shown an example of a Work Sheet. The entries for inventory adjustments are blocked in:

The Beginning Inventory is	$3,409.00
The Ending Inventory is	3,113.00



as of July 31, 19—

	TRIAL BALANCE		PROFIT AND LOSS		BALANCE SHEET	
ACCOUNT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	275 -				275 -	
Bank	8440 -				8440 -	
Accounts Receivable	1561 -				1561 -	
Inventory July 1	3409 -		3409 -			
Inventory July 31				3113 -	3113 -	
Land	2000 -				2000 -	
Cabins	15000 -					
Boats	6000 -					
Motors	1200 -					
Equipment	2000 -					
Loan		30000 -				30000 -
Accounts Payable		504 -				504 -
Net Worth		6000 -				6000 -
Purchases	3998 -		3998 -			
Expenses	1291 -		1291 -			
Sales		8670 -		8670 -		
	45174 -	45174 -	8698 -	11783 -	39589 -	36504 -
Net Profit			3085 -			3085 -
			11783 -	11783 -	39589 -	39589 -

12. Read Section 4 of the Readings.

4. Recording the New Inventory into the General Ledger Account

After the ending inventory is calculated and entered on the Work Sheet you must adjust the General Ledger account inventory to show the present (ending) balance.

The Profit and Loss Summary account is used as a summarization account in adjusting inventory.

The inventory is adjusted by making an entry in the General Journal:

July	31	Profit and Loss	3409 00		✓
	31	Inventory (old)		3409 00	✓

The amount of the new inventory is then recorded by making an entry in the General Journal:

July	31	Inventory (new)	3113 00	
	31	Profit and Loss		3113 00

The purchase account and the other accounts relating to merchandise will be closed to the profit and loss summary account.

The inventory and profit and loss summary appear in the General Ledger as follows:

ACCOUNT NO. ________ SHEET NO. ________

NAME Inventory TERMS ________

ADDRESS ________ CREDIT LIMIT ________

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	72									
July	31	Inventory	J2		3409 00			Dr		3409 00
	31	Closing Entry	J2				3409 00			-0-
	31	Inventory (new)	J2		3113 00			Dr		3113 00

ACCOUNT NO.
NAME Profit and Loss Summary
ADDRESS

SHEET NO.
TERMS
CREDIT LIMIT

DATE		ITEMS	FOLIO	✓	DEBITS	✓	CREDITS	DR or CR	✓	BALANCE
19	72									
July	31	Purchases					3998 00	Cr		3998 00
	31	Expenses					1291 00	Cr		5289 00
	31	Sales			8670 00			Dr		3381 00
	31	Inventory July 1					3409 00	Cr		28 00
	31	Inventory July 31			2113 00			Dr		2085 00
	31	Net Worth					2085 00			-0-

(The profit and loss summary account is closed to the net worth account.)

13. Instruct the students to make the closing and adjusting entries for the Work Sheet which they have just prepared in point 10 above.

Below are the General Journal entries for closing off the books at the end of October 1972.

Date	Description	Post Ref	Debit	Credit
1972				
Oct. 31	Profit & Loss		1900 00	
31	Inventory Oct. 1			1900 00
Oct. 31	Inventory Oct. 31		1765 00	
31	Profit & Loss			1765 00
Oct. 31	Profit & Loss		488 00	
31	Purchases			488 00
Oct 31	Profit & Loss		480 00	
31	Expenses			480 00
Oct 31	Cash Sales		2235 00	
31	Profit & Loss			2235 00
Oct 31	Credit Sales		131 00	
31	Profit & Loss			131 00
Oct 31	Profit & Loss		263 00	
31	Net Worth			263 00

14. Read Section 5 of the Readings. Discuss any points that need to be clarified in the lesson.

5. Summary

Inventory consists of merchandise which is acquired for resale. An inventory count of this merchandise is ordinarily taken at regular intervals, at least at the close of each fiscal year (business year).

Inventory has an asset account in the General Ledger which records in dollar terms the merchandise held for resale. At the end of each accounting period, an adjustment is made in order to bring this account up-to-date. To make the adjustment, you must:

a. Debit the profit and loss summary in the General Journal the amount of the old inventory. (Inventory at the beginning of the period.)

   To complete this transaction credit inventory the amount of the old inventory.

b. Debit inventory in the General Journal the amount of the new inventory. (Inventory at the end of the period.)

   To complete this transaction credit profit and loss summary the amount of the new inventory.

c. The entries a and b are then posted to the General Ledger account inventory. The balance will be the value of the inventory at the end of the period.

After adjusting the inventory account, the businessman uses the new balance in this account for Balance Sheet purposes. It shows the value of the asset inventory as of the date counted and calculated.

Indicator

15. Hand out Exercise FAB24-1, "Holmes' General Store.
16. Tell the students to follow instructions given in the Exercise.

General Ledger Accounts

See following page.

FAB24

Cash

	910.00		
		280.00	(a)
(c)	1,500.00		
(d)	500.00	50.00	(e)
		275.00	(f)
(g)	3,710.00		
(h)	275.00		
(i)	650.00		
		1,000.00	(j)
		440.00	(k)
		250.00	(m)
		400.00	(n)
		4,500.00	(o)
	350.00		

Accounts Receivable

	2,700.00		
(b)	1,556.00		
		1,500.00	(c)
		500.00	(d)
		275.00	(h)
		650.00	(i)
	1,331.00		

Inventory

	8,630.00		

Accounts Payable

		1,190.00	
(j)	1,000.00		
(k)	440.00	550.00	(1)
		300.00	

Loan

		10,000.00	
(m)	250.00		
		9,750.00	

Net Worth

		1,050.00	
(n)	400.00		
		650.00	

Rent

(a)	280.00		

Purchases

(b)	550.00		

Credit Sales

		1,556.00	(b)

Advertising

(c)	50.00		

FAB24

Salary

(f) 275.00	

Cash Sales

	3,710.00 (g)

Bank

(o) 4,500.00	

Accounts Receivable Ledger

C. Adams

420.00	
(b) 210.00	
	500.00 (d)
130.00	

A. Brown

1,500.00	
(b) 750.00	
	1,500.00 (c)
750.00	

W. Toms

250.00	
(b) 116.00	
	275.00 (h)
91.00	

J. Yeus

530.00	
(b) 175.00	
	650.00 (i)
55.00	

W. Black

(b) 305.00	

Accounts Payable Ledger

Black & Black

	750.00
(j)1,000.00	
	550.00 (l)

Waserman

	440.00
(k) 440.00	
-0-	-0-

WORK SHEET AS OF SEPTEMBER 30, 19

	TRIAL BALANCE		PROFIT & LOSS		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	350 00				350 00	
Bank	4500 00				4500 00	
Accounts Receivable	1331 00				1331 00	
Inventory, Sept. 1	8630 00		8630 00			
Inventory, Sept 30				5125 00	5125 00	
Loan		9750 00				9750 00
Net Worth		650 00				650 00
Rent	280 00		280 00			
Advertising	50 00		50 00			
Salary	275 00		275 00			
Purchases	550 00		550 00			
Cash Sales		3710 00		3710 00		
Credit Sales		1556 00		1556 00		
Accounts Payable		300 00				300 00
	15966 00	15966 00	9785 00	10391 00	11306 00	10700 00
			606 00			606 00
			10391 00	10391 00	11306 00	11306 00

FAB24

Closing Entries.

GENERAL JOURNAL

DATE	DESCRIPTION	POST REF	DEBIT	CREDIT
Sept 30	Profit & Loss		8630 00	
30	Inventory			8630 00
Sept 30	Inventory		5125 00	
30	Profit & Loss			5125 00
Sept 30	Cash Sales		2710 00	
30	Credit Sales		1556 00	
30	Profit & Loss			4266 00
Sept 30	Profit & Loss		1155 00	
30	Purchases			550 00
30	Rent			280 00
30	Advertising			50 00
30	Salary			275 00
Sept 30	Profit & Loss		606 00	
30	Net Worth			606 00

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB24 ADJUSTING INVENTORY

EXERCISE FAB24 - 1

HOLMES' GENERAL STORE

Holmes' General Store determines its cost of goods sold each month on the basis of its monthly physical inventories combined with a record of purchases. Opening Balances on September 1, 1971 were as follows:

Account	Debit	Credit
Cash	$ 910.00	
Accounts Receivable	2,700.00	
Inventory	8,630.00	
Accounts Payable		$ 1,190.00
Loan		10,000.00
Net Worth		1,050.00
Totals	$12,240.00	$12,240.00

FAB24

Accounts Receivable were:

C. Adams	$ 420.00
A. Brown	1,500.00
W. Toms	250.00
J. Yeus	530.00
Total	$2,700.00

Accounts Payable were:

Black & Black	$ 750.00
Waserman	440.00
Total	$1,190.00

INSTRUCTIONS

1. Record the Opening Balance into the books and post to General Ledger accounts.
2. Set up subsidiary ledgers for the Accounts Receivable and the Accounts Payable.
3. Record the following transactions:

Number	Transaction
1.	Paid $280.00 for September rent for store and store fixtures.
2.	Merchandise sales on credit for $1,556.00: C. Adams $210.00 J. Yeus 175.00 W. Black 305.00 W. Toms 116.00 A. Brown 750.00

3. Received payment of $1,500.00 from A. Brown.
4. Received payment of $500.00 from C. Adams.
5. Paid $50.00 for advertising.
6. Paid employee $275.00.
7. Sold merchandise for $3,710.00 cash.
8. Received payment of $275.00 from W. Toms.
9. Received payment of $650.00 from J. Yeus.
10. Paid Black & Black $1,000.00.
11. Paid Waserman $440.00.
12. Purchased merchandise from Black & Black for $550.00 on credit.
13. Made loan payment of $250.00.
14. Withdrew $400.00 for own use.
15. Made Bank Deposit of $4,500.00.

4. Prepare a Work Sheet as of September 30. Complete the Work Sheet making adjustments for the inventory taken September 30 and valued at $5,125.00.

5. Prepare the closing entries for the books as of September 30.

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB25 FINANCIAL STATEMENTS

INSTRUCTOR'S GUIDE

OVERVIEW

Business operations consist of innumerable transactions, involving the exchange of one business asset for another, or the addition or contraction of indebtedness (through borrowing, or repaying debts). Each of these cycles has an influence on the financial status of the business, and so must be recorded, classified, summarized and reported in a form which is meaningful to management and others who may be interested in the business operations. The recording of the internal data makes up the bookkeeping system.

At least two statements are essential for a minimum of understanding of the financial operations of the business: the Balance Sheet and the Profit and Loss Statment.

The Balance Sheet and the Profit and Loss Statement are considered basic because they reveal the results of past activity. The Balance Sheet shows the condition of the business as of a given date in respect to its assets, liabilities and owner's net worth. The Profit and Loss Statement is a summary of all activity involving income to the business and expenses incurred. The Profit and Loss Statement is commonly a report of operations for the period of a fiscal year, and the Balance Sheet is a report of financial status at the close of business on the last day of the fiscal year. In a sense, the Balance Sheet is a summarization which answers the questions:

1. Where are we?
2. What are we worth?

The Profit and Loss Statement reveals how the present state was reached.

FAB25

OBJECTIVE

The students will be able to prepare a Profit and Loss Statement and a Balance Sheet from information contained in the Ledgers of the business, after the books have been closed off at the end of the accounting period.

RESOURCES REQUIRED

1. Case FAB25 - 1, "Blair's Store"
2. Projectual FAB9 - 4, "Standard Form of a Profit and Loss Statement"
3. Projectual FAB10 - 2, "The Balance Sheet"
4. Overhead with clear plastic roll.

METHODOLOGY

1. Do not hand out the Readings immediately.

OBJECTIVE: THE STUDENTS WILL BE ABLE TO PREPARE A PROFIT AND LOSS STATEMENT AND A BALANCE SHEET FROM INFORMATION CONTAINED IN THE LEDGERS OF THE BUSINESS, AFTER THE BOOKS HAVE BEEN CLOSED OFF AT THE END OF THE ACCOUNTING PERIOD.

Stimulus

2. Show projectual FAB9-4, "Standard Form of Profit and Loss Statement". Have the students briefly review how the statement is made up.

Income

minus: Cost of Goods Sold
equals: Gross Profit
minus: Expenses
equals: Net Profit

Show projectual FAB10-2, "The Balance Sheet". Have the students briefly review how a Balance Sheet is made up.

Assets equal Liabilities plus Owner's Worth.

Clarify Problem

3. Hand out the Readings. Read the Purpose and Introduction.

PURPOSE

In this lesson you will be shown how to make up financial statements from the bookkeeping sheets and Ledger sheets you have used so far in the course.

INTRODUCTION

The Ledger accounts that you complete once a month summarize all the facts about the operations of your business for the period, but they do not provide this information in a form for easy use by yourself. After the monthly entries are made, permanent reports are prepared for these Ledger accounts.

The Profit and Loss Statement contains information about the income, the expenses and the net profit your business made during the year.

The Balance Sheet shows you what your business owes and owns at the end of the year.

Provide Information

4. Read Section 1 of the Readings, discussing the accounts used to make up a Profit and Loss Statement. Have the students list on the flip chart the accounts from which information for the Profit and Loss Statement is gathered. Note the point about sources of income. Income is gained from regular operations of the business but operations such as collection of commissions, sale of furs, etc., which are not principal revenue operations of the business, must also be stated if they bring money into the business. When discussing the Readings, use the clear plastic roll on the overhead projector to illustrate the examples given.

CONTENT

1. Preparing the Profit and Loss Statement

The accounts that contain information you will need to make your Profit and Loss Statement are:

- cash sales
- credit sales
- other receipts
- purchases
- freight
- expenses

a. Sections of the Profit and Loss Statement

(1) Income

The first section of the Profit and Loss Statement has the heading 'Income'. There are three types of income:

(a) income from cash sales
(b) income from credit sales
(c) income from other sources

You can find out how much of each type of income you have by looking at the final balances in your Ledger accounts. The first two, income from cash sales and income from credit sales, are easy to figure out. They are the final figures in the balance columns of these accounts.

But you must be careful when figuring out how much income came from other operations. Such things as loans and money put into the business by yourself or others are not considered to be income. Income from other sources includes: Commissions received from sales of licences, collection of sales tax, or similar duties you do for a small fee.

If the balances in your income accounts were as follows:

cash sales	$19,785.31
credit sales	1,325.35
other income	- 0 -

The income section of the Profit and Loss Statement would look like this:

Income

Cash Sales	$19,785.31	
Credit Sales	1,325.35	
Total income		$21,110.66

(2) Cost of Goods Sold

The second section of the Profit and Loss Statement has the heading "Cost of Goods Sold". In this section you figure out how much it cost to purchase the goods you sold during the year. The information you need is found in the following accounts:

(a) purchases
(b) freight

You will also have to count your goods on hand so that you know how much inventory you have. You use the Profit and Loss Statement from the last accounting period to find out how much inventory you started with.

If the figures in the accounts are as follows:

purchases	14,147.69
freight	225.39
inventory (beginning)	2,991.36
inventory (ending)	3,431.36

The cost of goods sold section is as follows:

Cost of Goods Sold

Inventory, beginning	$ 2,991.36	
Purchases	14,147.69	
Freight	225.39	
Cost of Goods available for Sale	$17,364.39	
Less: Inventory, ending	3,431.36	
Cost of Goods Sold		$13,933.03

(3) Gross Profit

The difference between income and cost of goods sold is called the gross profit on sales. This tells you how much money you have available for payment of expenses.

The gross profit for our example can be calculated as follows:

Income	$21,110.66
Less: Cost of Goods Sold	13,933.03
GROSS PROFIT on Sales	$ 7,177.63

Therefore, you have $7,117.63 to cover expenses and profit.

(4) Expenses

The last section of the Profit and Loss Statement is "expenses". You list all your expenses and the amounts to see how much it cost you to actually sell the goods. You then subtract the total expenses from the gross profit to find out if you made a profit or loss during the year. The net profit (or loss) for our example can be calculated as follows:

Gross Profit on Sales		$7,177.63
Expenses		
Wages	$3,430.34	
Employer C.P.P./U.I.C.	195.00	
Other	1,113.43	
Total Expenses		4,738.77
Net Profit		$2,438.86

5. Ask the students: "What does a Profit and Loss Statement really tell you?" "Do dollar amounts really give a good picture of how well the business is doing?" Discuss the students' answers. To illustrate the above questions, put two Profit and Loss Statements on the overhead projector. Have the students decide which operation is actually the better. Ask the students to give reasons for their choice.

	Profit and Loss #1	Profit and Loss #2
Income	$100,000.00	$50,000.00
Cost of Goods Sold	50,000.00	20,000.00
Gross Profit	50,000.00	30,000.00
Expenses	20,000.00	10,000.00
Net Profit	$ 30,000.00	$20,000.00

6. Discuss converting dollar figures on a Profit and Loss Statement to percentage figures. This is useful because it gives a clearer picture of how effective the buying and selling policies of the business are. Explain and illustrate the four basic ratios.

These are

a. $\frac{\text{Gross Profit}}{\text{Income}}$ = Gross Operating Margin (Gross Profit Margin)

This ratio tells the degree to which selling price may decline without resulting in a loss on operations, and the percentage of sales left (after paying for the goods) to pay the expenses of the business and to give a profit (which is the pay of the owner). Using the above statements, we have the following % Gross Margin:

Statement #1	Statement #2
$\frac{\$50,000.00 \times 100\%}{\$100,000.00}$	$\frac{\$30,000.00 \times 100\%}{\$50,000.00}$
= 50%	= 60%

b. $\frac{\text{Expenses}}{\text{Sales}}$

This ratio shows how much of each dollar of income is used to pay expenses. If this ratio is too high it would indicate that the owner should look at his expenses to see if they can be cut down without hurting sales.

Statement #1	Statement #2
$\frac{\$\ 20,000.00 \times 100\%}{\$100,000.00}$	$\frac{\$10,000.00 \times 100\%}{\$50,000.00}$
= 20%	= 20%

c. $\frac{\text{Cost of Goods Sold}}{\text{Sales}}$

This ratio shows how effectively the business is buying. If costs are too high, it might pay the businessman to use other suppliers or to buy in larger quantities to gain the discounts offered.

Statement #1	Statement #2
$\frac{\$\ 50,000.00 \times 100}{\$100,000.00}$	$\frac{\$20,000.00 \times 100}{\$50,000.00}$
= 50%	= 40%

d. $\frac{\text{Net Profit}}{\text{Sales}}$

This ratio shows the profit in terms of the sales. You can see that even though the first business is making $10,000.00 more profit than the second business, it is making 10¢ less profit on each dollar of sales.

Statement #1	Statement #2
$\frac{\$30,000.00 \times 100}{\$100,000.00}$	$\frac{\$20,000.00 \times 100}{\$50,000.00}$
= 30%	= 40%

7. Read Section 2 and 3 of the Readings.

2. Percentage Figures on the Profit and Loss Statement

Many times dollar values on a Profit and Loss Statement do not give you a clear picture of what is happening. For example, sales of $100,000.00 look a lot better than sales of $50,000.00. But, while the dollar amount is larger, it might be costing you more for selling the goods. Therefore, you should use percentages to see how you are doing.

Income is always 100%. All the other figures you are interested in on the Profit and Loss Statement are considered as percentages on your total income figure. The complete Profit and Loss Statement with the percentages calculated is shown on the following page.

3. What do Percentages Mean?

By calculating the percentages of the Profit and Loss Statement, you can tell how much it is costing you to get $1.00 of income. In the example you just looked at, you can see it is costing 88.4¢ to get $1.00 of income. Calculated as follows:

Cost of Goods Sold	32.2¢
Expenses	56.2¢
Total	88.4¢

NewStart Store
Profit and Loss Statement
for period ending December 31, 19__

				Per Cent
Income				
Cash Sales		$19,785.31		
Credit Sales		1,325.35	$21,110.66	100
Total Income				
Cost of Goods Sold				
Inventory, beginning	$ 2,991.36			
Purchases	14,147.64			
Freight	225.39			
Cost of Goods Available for Sale		17,364.39		
Less: Inventory ending		3,431.36		
Cost of Goods Sold			13,933.03	66
Gross Profit			$ 7,177.63	34
Expenses				
Wages		3,430.34		
Employer (CPP-UIC)		195.00		
Other		1,113.43		
Total Expenses			4,738.77	22.4
Net Profit (Loss)			$ 2,438.86	10.6

On a sale of $1.00 you make 11.6¢ which is the net profit (or loss) percentage.

You can use this type of analysis (breakdown into simple parts) in order to see how you can improve your operations. For example, you might feel that your expenses should not be more than 25¢ for each $1.00 of sales. Therefore, if your expenses are 35% or 35¢ for each $1.00 of sales, you would check your operations to see where you can cut down expenses. Perhaps your employees are not doing an efficient job so you would check to see how their work could be done better. Ask yourself such questions as: "Do they need more training? Are they not handling customers correctly?"

Another example would be if you decide that your cost of goods sold should not be more than 75% of sales or 75¢ out of each $1.00 of sales. If the goods sold are costing you more than this, you would check to see if your buying is being done properly. Perhaps you could buy in larger lots and get a better price. The cost of freight might be too high for the small amounts you order at one time; therefore, you might order in larger quantities.

There are many other ways you can use the percentages from a Profit and Loss Statement, but you must decide on the maximum and minimum amounts you are willing to spend for certain things. You can do this only when you know what the costs of a business like yours are. You can find much of this information by talking to people in the line of business you want to go into, by reading information in bulletins put out by Dun and Bradstreet and the Dominion Bureau of Statistics, and by talking to professional people, such as accountants.

8. Show Projectual FAB10-2, "The Balance Sheet", and discuss. Ask: "What accounts contain the information needed for the Balance Sheet?" Discuss.

9. Read Section 4a. Illustrate the sample Balance Sheet on the flip chart or on the overhead projector.

4. Preparing the Balance Sheet

a. Content and Format

The other major statement you use in your business is the Balance Sheet. A Balance Sheet shows what your business owns and owes on a certain date.

The accounts you use for the Balance Sheet are:

(1) cash - cash on hand and in the bank
(2) equipment
(3) building
(4) land
(5) inventory (ending)
(6) accounts receivable
(7) accounts payable
(8) loans
(9) owner's worth
(10) owner's drawings
(11) profit (or loss) from Profit and Loss Statement.

Remember from the first lesson on the Balance Sheet we said that what the business owns has to balance with what it owes.

That is, the ASSETS = LIABILITIES + OWNER'S MONEY. The Balance Sheet always balances because the assets are what the business used money for and the equity (that is, liabilities and owner's money) showed where the money came from.

From the information given on the following page about the accounts of The NewStart Store, a Balance Sheet can be made up for December 31, 1972.

ACCOUNT	BALANCE DR.	BALANCE CR.
Cash on Hand	$ 102.26	
Cash in Bank	1,102.48	
Accounts Receivable	2,886.62	
Inventory, ending	3,431.36	
Land	1,700.00	
Building	800.00	
Equipment	1,796.76	
Accounts Payable		$ 3,277.40
Bank Loan Due 1971		1,500.00
Loan from Government		7,120.79
Owner's Worth		1,000.00
Profit (or loss) from P & L Statement	3,516.71	2,438.00
TOTALS	$15,336.19	$15,336.19

NEWSTART STORE
Balance Sheet
December 31, 19__

ASSETS

Current Assets

Cash on Hand	$ 102.26	
Cash in Bank	1,102.48	
Accounts Receivable	2,886.62	
Inventory, ending	3,431.36	
Total Current Assets		$ 7,522.72

Fixed Assets

Land	$1,700.00	
Building	800.00	
Equipment	1,796.76	
Total Fixed Assets		$ 4,819.48
Total Assets		$11,819.48

Liabilities and Owner's Worth

Current Liabilities			
Accounts Payable	$3,227.40		
Bank Loan	1,500.00		
Total Current Liabilities		$4,777.40	
Long-Term Liabilities			
Government Loan		$7,120.79	
Total Liabilities			$11,898.19
Owner's Worth			
Owner's Worth	$1,000.00		
Plus: Profit (or less loss)	2,438.00		
Less: Owner's Drawings		$3,438.00	
Owner's Present Worth		3,516.71	
			(78.71)
Liabilities and Owner's Worth			$11,819.48

10. Use the flip chart or the overhead projector to show the students that there is another form to the Balance Sheet in which the assets are listed alongside the liabilities and Owner's worth as follows:

ASSETS		LIABILITIES AND OWNER'S WORTH	
CURRENT ASSETS		CURRENT LIABILITIES	
Cash on Hand	$ 102.26	Bank Loan	$ 1,500.00
Cash in Bank	1,102.48	Accounts Payable	3,274.40
Accounts Receivable	2,886.62	Total Current Liabilities	$ 4,777.40
Inventory Dec. 31/70	3,431.36		
Total Current Assets	$ 7,522.72		

FIXED ASSETS	
Land	$ 1,700.00
Building	800.00
Equipment	1,796.76
Total Fixed Assets	4,296.76
Total Assets	$11,819.48

LONG-TERM LIABILITIES	
Government Loan	$ 7,120.79
Total Long-Term Liabilities	7,120.79
Total Liabilities	$11,898.19
OWNER'S WORTH	
Owner's Worth Jan 1, 1970	$ 1,000.00
Plus Profit (loss)	3,438.00
Less Owner's Drawings	3,416.71
Present Owner's Worth	$ (78.71)
Liabilities and Owner's Worth	$11,819.48

11. Read Sections 4 b. and 5 of the Readings.

4. b. Meaning of Terms

You will notice that when we made up the Balance Sheet, the terms current assets, fixed assets, current liabilities and long-term liabilities appeared. Let's see what these terms mean.

(1) Current Assets

Assets are listed on the Balance Sheet in the order of ease that they can be changed into money. This is why cash on hand and cash in the bank are always listed first under the assets of a business.

Current assets are those assets which could be changed into money within a period of one year. Therefore you include:

(a) Cash on Hand
(b) Cash in Bank (Credit Union)
(c) Accounts Receivable
(d) Inventory.

(2) Fixed Assets

Fixed assets are those things the business owns that will take more than one year to change to money. Perhaps you could never sell them at all.

Fixed assets include:

(a) Land
(b) Buildings
(c) Equipment.

(3) Current Liabilities

Current liabilities are those bills or the money your business owes which must be paid within one year.

(4) Long-Term Liabilities

Long-term liabilities are those payables which will have to be paid more than a year from the Balance Sheet date. For example, if you owed the government $10,000.00 for a loan and you start paying one year from now, this is considered to be a long-term liability on the Balance Sheet you are now making out. On next year's Balance Sheet that part which must be paid during the period after the Balance Sheet date is considered a current liability and the rest is considered a long-term liability. Remember long-term liabilities become current liabilities before they are paid.

5. Calculating Owner's Worth

This section is sometimes called the equity section of the Balance Sheet. It tells you how much the business has received from the owner; in other words, how much the business owes you.

Let's say that after the first month you make up a Balance Sheet. You invested $1,000.00 of your money into the business. There was no profit or loss on operations, and you did not withdraw any money from the business. Therefore, after the month, the business owes you $1,000.00.

At the end of the second month you again make up a Balance Sheet. When you started business at the beginning of this second month the business owed you $1,000.00 (your original investment). During the second month, the business made a profit of $500.00. You, as the owner, acquire any profits that the business makes. Once again you don't make any withdrawals from the business.

a. Your Owner's Worth Section is as follows:

Owner's Worth

Owner's Worth, beginning	$1,000.00	
Plus: Profit (or less loss)	500.00	
	$1,500.00	
Less: Owner's Drawings	-0-	
Owner's Present Worth		$1,500.00

At the end of the third month you again make up a Balance Sheet. When you started business at the beginning of this third month, the business owed you $1,500.00. During this third month you had a loss of $100.00 on operations. You also withdrew $400.00 from the business for your own use.

b. Your Owner's Worth section for the third month looks like this:

Owner's Worth

Owner's Worth, beginning	$1,500.00	
Plus: Profit (or less loss)	(100.00)	
	$1,400.00	
Less: Owner's Drawings	400.00	
Owner's Present Worth		$1,000.00

At the end of this third month the business owes you $1,000.00. This is called your present Owner's Worth. It is also called Net Worth or Owner's Equity.

You can sometimes have a negative present Owner's Worth. This means that you have taken more money out of the business than you have invested and added through profits. This is called a DEFICIT.

12. Ask: "What does the Balance Sheet tell you?" "What does it tell an outsider, for example, a banker who is interested in your business?" Discuss these questions, then read Section 6 of the Readings.

6. Summary

The Profit and Loss Statement shows the income, expenses and net profit your business made during the accounting period.

The Balance Sheet shows you how much your business owns and how much it owes. Assets always equal liabilities and owner's worth. Assets and liabilities are divided into the following classes:

a. Current assets - less than one year
b. Fixed assets - more than 1 year
c. Current liabilities - payable within one year
d. Long-term liabilities - payable more than one year from the date of the statement.

The owner's worth section of the Balance Sheet shows how much money you have invested in the business.

Indicator

13. Hand out Case FAB25-1, "Blair's Store". Have the students do the assignment.

FAB25

Blair's Store
Profit and Loss Statement
for period ending December 31, 1972

Sales			
Cash Sales		$2,700.00	
Credit Sales		300.00	
Total Sales			$3,000.00
Cost of Goods Sold			
Inventory, beginning	$ -0-		
Purchases	5,150.00		
Freight	150.00		
Cost of Goods Available for Sale		5,300.00	
Less: Inventory, ending		3,160.00	
Cost of Goods Sold			4,140.00
Gross Profit			$ 860.00
Expenses			
Wage Expenses		260.00	
C.P.P./U.I.C. Employer Expense		6.00	
Other Expenses		134.00	
Total Expenses			400.00
Net Profit			$ 460.00

Blair's Store
Balance Sheet
as of December 31, 1972

Assets

Current Assets		
Cash on Hand	$ 266.00	
Cash in Bank	3,525.00	
Accounts Receivable	300.00	
Inventory, ending	3,160.00	
Total Current Assets		$7,251.00
Fixed Assets		
Land	$ 500.00	
Building	1,000.00	
Equipment	1,500.00	
Total Fixed Assets		$3,000.00
Total Assets		$10,251.00

Liabilities and Owner's Worth

Current Liabilities			
Accounts Payable			
Trade	700.00		
*Other	91.00		
		791.00	
Loan (due, 1973)		2,500.00	
Total Current Liabilities			3,291.00
Long-Term Liabilities			
Loan (due, 1978)		5,000.00	
Total Long-Term Liabilities			5,000.00
Total Liabilities			8,291.00
Owner's Worth			
Owner's Worth, Dec 1/72	$2,000.00		
Plus: Profit	460.00		
		2,460.00	
Less: Owner's Drawings		500.00	
Owner's Worth Dec 31/72			1,960.00
Total Liabilities & Owner's Worth			$10,251.00

*Made up of:

C.P.P./U.I.C. Contributions	$12.00
Income Tax, employee	4.00
Sales Tax	75.00
Total	$91.00

SUBJECT FINANCE, ACCOUNTING, BOOKKEEPING

LESSON FAB25 FINANCIAL STATEMENTS

CASE FAB25 - 1

BLAIR'S STORE

Keith Blair and his wife, Margaret, owned and operated their own store in Bishop's Hills. They had started the business in December of 1972, at which time they received a loan of $5,000.00 from the government and put $2,000.00 of their own money into the business.

Before Keith applied for the loan in early September, he had been busy arranging to buy land, a building, equipment and goods. He had seen many suppliers to arrange for credit, and had arranged with the Credit Union for money if he needed any after he was open for business. Keith knew if he got things arranged before he actually started business, he would save himself a lot of trouble.

The loan came through at the end of November. As soon as it was deposited in the Credit Union, Keith began completing his plans. He bought land for $500.00, a building cost him $1,000.00 and equipment another $500.00. Next, Keith notified his suppliers to send the goods he had on order. The goods cost $5,000.00 and the charge for delivery was $150.00. Keith was now ready to open his doors for business.

The business got off to a good start. Many people came to Blair's Store to buy their supplies. Most of the people paid cash for the orders they bought, but Keith gave out some credit. (By the end of December he had given out a total of $300.00 credit to people.) In fact, business was so good that Keith found he needed to hire a clerk. He hired John Blast for $260.00 a month.

Keith decided that he needed more equipment to handle his merchandise. The cost for the new equipment was $1,000.00. Keith went to the Credit Union to make arrangements for a loan. The manager talked over operations of the store with Keith and in the end they agreed to a loan of $2,500.00 ($1,000.00 for the equipment, $1,500.00 for operating costs).

The loan would be repaid by December 31, 1973.

Keith had to order more goods from one of his suppliers. Instead of using credit, Keith paid cash for the order. The order cost $150.00 and there were no freight charges because it was shipped FOB destination. This meant that the supplier paid the freight charges. Keith also paid $4,300.00 of the amount he owed to his suppliers on the first orders he had received.

At the end of the first month, Keith wanted to see how well his business was doing. He wanted to make a Profit and Loss Statement for the period ending December 31 as well as a Balance Sheet as of December 31.

The balances in his General Ledger accounts as of December 31, 1972 were as follows:

Account	Dr/Cr	Balance
Cash in Bank	Dr	$3,525.00
Cash on Hand	Dr	266.00
Accounts Receivable	Dr	300.00
Credit Sales	Cr	300.00
Loan (due, 1973)	Cr	2,500.00
Cash Sales	Cr	2,700.00
Loan (due, 1977)	Cr	5,000.00
Accounts Payable	Cr	700.00
CPP/UIC Contributions	Cr	12.00
Income Tax, Employee	Cr	4.00
Sales Tax	Cr	75.00
Purchases	Dr	5,150.00
Freight	Dr	150.00
Land	Dr	500.00
Building	Dr	1,000.00
Equipment	Dr	1,500.00
Other Expenses	Dr	134.00
Wages Expenses	Dr	260.00
Employer's CPP/UIC Expenses	Dr	6.00
Owner's Worth Dec. 1/72	Cr	2,000.00
Owner's Drawings	Dr	500.00

Keith and John counted the inventory on hand at the end of December and priced it at a cost value of $3,160.00.

Assignment

1. Using the information contained in the case, make up a Balance Sheet and a Profit and Loss Statement as of December 31, 1972.

SUBJECT PERSONAL FINANCE

LESSON PF4 CONSUMER CREDIT

INSTRUCTOR'S GUIDE

OVERVIEW

Most students will have had some experience with consumer credit, either personally or indirectly. Consumer credit is indeed a common occurrence. It is estimated that the typical wage earner will work four or five years of his life just to pay interest charges on his consumer loans.

This lesson does not attempt to discourage the students from the use of consumer credit. It is hoped that they will learn to see the use of consumer credit in the perspective of good money management. It may be wise to use consumer credit if it provides more enjoyment to the family than additional purchasing power at a later time. Only the family can make this decision.

The lesson should teach the student the need to shop for consumer credit and the need to incorporate his use of consumer credit into his family budget.

OBJECTIVE

The students will be able to evaluate the advantages and disadvantages of different credit plans.

REFERENCE MATERIALS FOR INSTRUCTOR

1. Brown, N.E. Consumer Education. Toronto: The MacMillan Company of Canada Limited, 1967, chs. 1 and 3.

2. Prindle, John R. It's Not Just Money. Madison, Wisconsin: CUNA International Inc., 1967, chs. 1, 2, 3.

3. Using Credit Wisely. Madison, Wisconsin: CUNA International Inc.

RESOURCES REQUIRED

1. Projectual PF4-1, "Buy Now - Pay Later".

2. Case PF4-1, "Mr. X's Family Budget - Part 2".

3. Filmstrip, "Making Credit Work for You" or "You Take the Credit" or film, "Wise Use of Credit". (10 minutes).

4. Application forms and other materials on various types of retail and loan credit plans. For example:

a.	retailers	- large department store's charge account plans
b.	banks	- ChargeX, consumer loans (demand notes and time notes)
c.	oil companies	- credit card
d.	finance companies	- various types of personal loans
e.	car dealers	- various time payment plans

5. Samples of sales contracts.

6. Resource person to discuss consumer credit and savings. This person may be a financial counsellor, home economist, bank or credit union loan manager, credit manager from retail store, etc.

METHODOLOGY

1. Do not hand out Readings immediately.

OBJECTIVE: THE STUDENTS WILL BE ABLE TO EVALUATE THE ADVANTAGES AND DISADVANTAGES OF DIFFERENT CREDIT PLANS.

Stimulus

2. Show Projectual PF4-1, "Buy Now - Pay Later".

Clarify Problem

3. Discuss the projectual. Ask students to relate their personal experiences.

   Ask: "What are the advantages and disadvantages to buying on credit?" List answers on the flip chart and discuss.

   Ask: "What things should you check into before buying something on credit?"

   Ask: "How can you calculate the amount of credit payments you can afford?"

4. Hand out the Reading; read and discuss the Purpose and Introduction.

PURPOSE

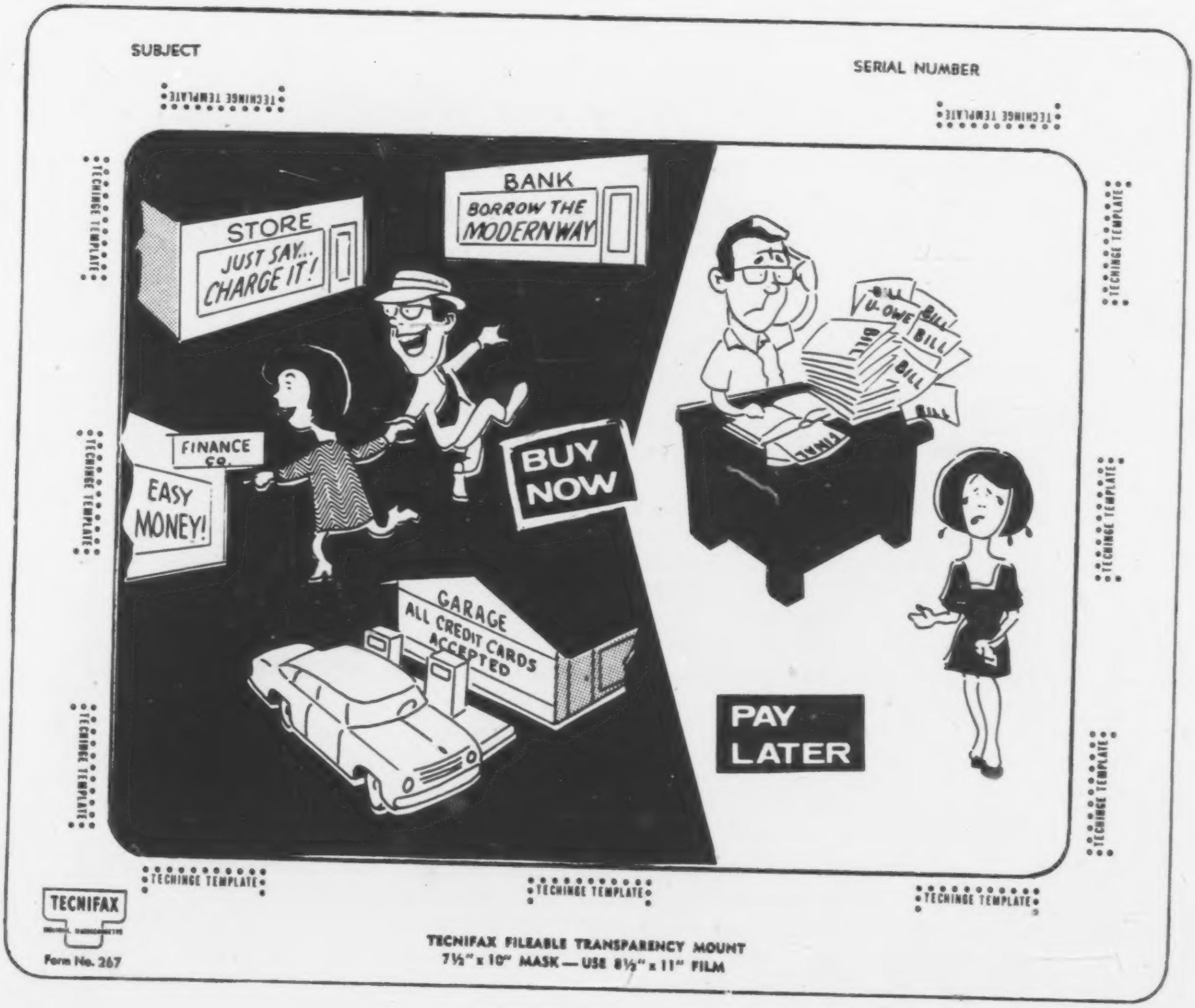
In this lesson you will discuss the meaning of the term 'consumer credit', the different types of consumer credit, and some of the advantages and disadvantages of using consumer credit. You will look at ways you can calculate how much credit you can afford, and at the application forms you will have to fill out before you can get consumer credit. Also, you will discuss the things you should consider when borrowing money or charging goods on credit.

INTRODUCTION

Many families have money problems because they use credit unwisely. They charge too much, then cannot meet the payments. It is important for you to prevent your family from falling into this credit trap. The more you learn about the wise use of consumer credit, the better you will be able to manage your family money matters.

PF4

PF4-1 BUY NOW - PAY LATER


SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
STORE
JUST SAY... CHARGE IT!
BANK
BORROW THE MODERNWAY
FINANCE CO.
EASY MONEY!
BUY NOW
GARAGE
ALL CREDIT CARDS ACCEPTED
BILL
U-OWE
FINAL
PAY LATER
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

Provide Information

5. Show the film, "Wise Use of Credit" (10 minutes) or one of the filmstrips, "Making Credit Work for You" or "You take the Credit". Discuss.

6. Read Sections 1, 2 and 3. Discuss each section and relate to student experiences.

CONTENT

1. What Does Consumer Credit Mean?

You and your family are consumers; you buy and use many things in your everyday living. For some items you purchase, you may pay a lump sum at a future date, or you may pay small amounts at regular intervals. This is called using consumer credit. In effect, you are using someone else's money to buy the things you need or want, until you can pay for them at a later date.

Using consumer credit reduces the amount of money you have available to spend on consumer goods. Suppose, for example, you buy a $600.00 colour television set through some form of consumer credit. The cost of financing is $250.00 over three years. This means you will pay a total of $850.00 for the television set. You will have $250.00 less purchasing power for buying other goods than you would have had if you had paid for the set in cash.

A person who buys largely on credit finds that a big part of his income is used to pay interest on his credit purchases rather than buying consumer goods.

There is another type of credit used in business, called producer credit, in which a business uses money or credit the same way a consumer buys goods on credit. The business must pay interest on the money it uses. The difference is that the business uses the money it borrowed on credit to earn more money for the business than it has to pay in interest. Thus, when producer credit is well used, it is a means of increasing profits for a business. Consumer credit always reduces a person's purchasing power. (Producer credit will be discussed in greater detail in the Finance, Accounting, Bookkeeping lessons.)

2. Types of Consumer Credit

There are two types of consumer credit: instalment credit and non-instalment credit. The term 'instalment' refers to a series of small payments; each payment is called an instalment.

a. Features of non-instalment credit
The purchaser charges items at a retail store on credit, and pays the total amount of all the credit purchases in a single lump sum, usually within 30, 60 or 90 days. This is almost like paying cash for goods, as no interest is charged. This is a convenient type of credit purchasing.

b. Features of instalment credit
The purchaser charges items at a retail store or borrows from a lending agency, then pays back the money in two or more payments, usually a regular amount per week or month. Instalment payments may last for several years. There are two types of instalment credit:

(1) Loan credit which refers to money borrowed to buy goods or services. Money may be borrowed from banks, credit unions, finance companies, or friends. Interest is charged on loan credit.

(2) Retail credit which refers to charging goods in a retail store; also called purchase credit, buying on time, credit buying, charge account buying or credit card buying. Interest is charged on retail credit unless the account is paid out in one lump sum each month.

3. When Will You Have to Use Consumer Credit?

You will have to borrow money (use loan credit) or charge goods (use retail credit) whenever your family wants to spend more than it earns. In other words, whenever income is not large enough to cover spending, it is necessary to use consumer credit. You can either borrow money or charge goods.

If you keep a family budget, it will be easy to see when your family may need consumer credit. The budget should help you plan the wise use of credit.

7. Read Section 4 of the Readings. Compare student's ideas of advantages and disadvantages as given in point 3, above, to those listed in the lesson.

4. What Are the Advantages and Disadvantages of Using Consumer Credit?

a. Advantages

(1) You get more satisfaction out of buying things now than later. The immediate enjoyment makes going into debt worthwhile.

(2) You are able to buy things you need to live.

(3) You do not have to spend your savings.

(4) You can save money by buying now if the items are on sale.

(5) You can use the items while you are paying for them.

Do you agree with these points? Can you think of any other advantages to using consumer credit?

b. Disadvantages

(1) You may be in debt forever.

(2) Consumer credit is expensive. You have to pay interest on the money you borrow, and usually on the goods you charge.

(3) You may 'overbuy' because it is so easy to use consumer credit. This will restrict your freedom in the future because a large part of your salary will be used in making credit payments.

(4) You may not be able to pay your debts if your income drops, or stops.

Do you agree with these points? Are there other disadvantages? You can see that using consumer credit means you are using somebody else's money to buy things. If you take out a loan from a bank to buy things, you are using the bank's money. If you charge things up at a store, you are using the store's money.

Can you think of times where you had to use consumer credit? Was it loan credit or retail credit?

8. Read and discuss Section 5 of the Readings.

5. How Much Credit Can You Afford?

If you keep a family budget, you will be able to calculate how much credit you can afford. For example, suppose your monthly budget looks like this:

Income	Per Month
Gross (Total) Pay	$400.00
Payroll Deductions	50.00
Net (Take Home) Pay	$350.00
Expenses	
Food	75.00
Housing (rent, utilities)	150.00
Medical	25.00
Clothing	10.00
Credit payments on car	60.00
Credit payments on furniture	10.00
Total Expenses	$330.00
Balance	20.00

Therefore, you can only afford another $20.00 a month worth of credit. However, you should plan your budget ahead for at least a year to see if you will be able to afford this $20.00 a month all year long. Also you should look at how much interest it is costing you to borrow or charge.

It is dangerous to only look at the size of the monthly payments. There are emergencies which come up. If you have too many payments, you may have difficulty with the emergency needs. Maybe it would be better for you to save up the money first and pay cash, rather than buy on credit.

What is the maximum amount of extra credit you can afford? Each family must calculate this by doing a family budget and deciding what is most important to them.

9. Read Sections 6 and 7 of the Readings. Pass out the various brochures and forms obtained from retail stores and lending institutions. Discuss the material and encourage students

to look for the terms: interest, credit limit, references, etc. These are the types of forms they will fill out if they apply for credit. Quite often they will not take the time to read the fine print at the time.

6. Credit Applications

If you borrow money from a bank, you have to fill out an application form and sign a promissory note.

If you want to use a charge account or get a credit card at a store (or service station) you have to fill out a credit application form.

Most application forms for loan credit or retail credit ask for the following information:

a. your name and address
b. your occupation
c. where you work now and where you worked previous to your present job
d. your wife's employer (if she works)
e. next of kin
f. personal references
g. other debts you owe
h. your personal assets, and
i. how much credit or loan you want.

Why do you think they want this information?

Before you sign a loan or retail credit application, there are several things you should consider. You should ask yourself the following questions:

a. What are the TERMS of the loan or retail credit? How big are the monthly payments? How long will it take to pay back? What are the penalties for late payment? What is the interest charge? (You will learn how to calculate interest in lesson PF5.)

b. Do I have the ABILITY to pay? You can figure this out by looking at your budget. You may have a very small capacity to take on extra credit payments.

c. What has been my PAST PERFORMANCE in paying off credit debt? Have I missed payments? Have I wished I had never bought the thing on credit in the first place?

d. Will I have steady employment or INCOME in the future?

e. What SECURITY or collateral is required? Will I have to mortgage my house? car? other personal assets?

You can see that the things you should consider when applying for consumer credit are indicated by the formula TAPES. That is, you should consider:

T - the terms of the loan or retail credit
A - your ability to pay
P - your past performance with consumer credit
E - your employment future
S - the security required

7. Summary

Consumer credit is a very useful and convenient means of enjoying consumer goods before a person has the money to pay for them. However, the consumer must remember that the use of too much credit reduces the purchasing power a person has, since a part of the income is spent on interest and finance charges.

People using consumer credit frequently forget to shop for consumer credit. They will spend a great deal of time and effort looking for the right car, television, etc. They will try to get the best price on these goods and then lose all their gains by neglecting to spend a few minutes shopping for the cheapest source of consumer credit.

10. Invite the resource person to come at some specified time to discuss consumer credit and savings.

Indicator

11. Hand out Case PF4-1, which is a continuation of the case in Lesson PF3. Read the case with the students. Have each student do the assignment at the end of the case. Once the assignment is completed, discuss the questions with all students. Note that this case ties in budgeting, savings and consumer credit.

Solutions to the Case

Assignment

Students should fill out a separate budget sheet for each credit plan. The pertinent figures for each plan are:

Plan 1: Payments to Retail Store	30	30	30	30	30	30	30	30	30	30	30	
TOTAL EXPENSES	415	435	415	515	435	415	415	515	515	415	435	685
BALANCE	+35	+15	+35	-65	+15	+35	+35	-65	+35	+35	+15	-235

Plan 2: Payments to Finance Company	28	28	28	28	28	28	28	28	28	28	28	28
TOTAL EXPENSES	413	433	413	513	433	413	413	513	413	413	433	713
BALANCE	+37	+17	+37	-63	+17	+37	+37	-63	+37	+37	+17	-263

Plan 3: Payments to Bank	0	0	0	0	0	0	0	0	0	0	0	330
TOTAL EXPENSES	385	405	385	485	405	385	385	485	385	385	405	1015
BALANCE	+65	+45	+65	-35	+45	+65	+65	-35	+65	+65	+45	-565

Question 1: Which credit plan do you think would be best for the X family? Why do you think it is the best?

The instructor should encourage students to analyze the balance figures in each of the budgets. For example:

a. figure out the difference between the positive and negative monthly balances (Plan 1 = \$255 - \$365 = \$110, Plan 2 = +\$273 - \$389 = \$116, Plan 3 = \$525 - \$635 = \$110.

b. discuss how family X will be able to cover these negative balances. For example:

- not buy the chesterfield?
- spend less in other parts of the budget?
- look for a credit plan with lower monthly payments?

Instructor can ask each student to justify his "best" plan. Students should realize that a budget is not rigid or cast in concrete; it should be flexible. Perhaps the X family could spend less on some other expenses items to release enough money to make payments on the chesterfield.

Question 2: Could the X family save up the $300 and buy the chesterfield for cash at the end of the year?

Discuss. Refer students back to Mr. X's family budget before he included the cost of the chesterfield. Students should calculate the difference between the positive and negative balances. For example: $ +525 - $305 = + $220. This shows that X family won't have enough surplus to save during the year to cover the cost of the chesterfield UNLESS some other expenses are trimmed. For example, the family would have to save all the surplus plus another $80 in order to have $300 cash to buy the chesterfield in December.

Question 3: What advice would you give the X family?

This may vary from student to student. Point out that "each family has to make its own decisions on what to buy and what not to buy. A family budget will help a family make these decisions. A family budget will also show if things can be bought for cash or if some credit plan should be used".

12. Refer students to Chapters 1, V and VI of the book, Consumer Education, revised edition, by N.E. Brown. If time permits, go over these chapters with students. Explain any areas of confusion students might have. (Emphasize the sales contract part of this book as this is a likely area of confusion to most students).

SUBJECT PERSONAL FINANCE

LESSON PF4 CONSUMER CREDIT

CASE PF4-1

MR. X's FAMILY BUDGET - PART 2

Mr. X planned his monthly family budget for the year on January 1st.

Mrs. X wanted to buy a new chesterfield at Ace Furniture Stores. The chesterfield sold for $300.00. Mr. X didn't think they could afford a new chesterfield. She thought they could. She said there were three ways they could pay for it.

Mrs. X's Credit Plans

1. Charge it upon the store charge account plan. This way they could pay $30.00 a month for 11 months and it would be all paid for.
2. Borrow the $300.00 from a finance company. This way they could pay $28.00 a month for one year and it would all be paid for.
3. Get a one year bank loan of $300.00. This way they wouldn't have to pay anything for 12 months. Then they could pay the $300.00 back to the bank plus 10% simple interest at the end of the year.

Mr. X didn't know if his budget would allow for these payments. He decided to add the expense of each of the alternate credit plans his wife had suggested to his budget to see which one would be the best way to pay for the chesterfield.

Mr. X also thought it might be better to save the $300.00 first and then buy the chesterfield for cash.

PF4

Assignment

1. Make out Mr. X's budget for each of the credit plans his wife suggested. (Use the attached budget sheets. Use a separate sheet for each credit plan).

Questions for Discussion

1. Which credit plan do you think would be best for the X family? Why do you think it is the best?
2. Could the X family save up the $300.00 and buy the chesterfield for cash at the end of the year?
3. What advice would you give the X family?

PF4

MR. X's FAMILY BUDGET FOR 12 MONTHS

(before calculating the cost of the chesterfield)

	MONTH											
ITEM	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
INCOME:												
Gross (total) Pay	500	500	500	500	500	500	500	500	500	500	500	500
Payroll Deductions	50	50	50	50	50	50	50	50	50	50	50	50
Net (Take Home) Pay	450	450	450	450	450	450	450	450	450	450	450	450
EXPENSES:												
Food	100	100	100	100	100	100	100	100	100	100	100	100
House payments	120	120	120	120	120	120	120	120	120	120	120	120
Utilities	25	25	25	25	25	25	25	25	25	25	25	25
Clothing	20	20	20	20	20	20	20	20	20	20	20	20
Drugs	10	10	10	10	10	10	10	10	10	10	10	10
Car - gas, oil	20	20	20	20	20	20	20	20	20	20	20	20
- payments	70	70	70	70	70	70	70	70	70	70	70	70
- licence				25								
Insurance												
- Life								80				
- Hospital		20			20			20			20	
- Car				75								
Taxes												300
Other expenses	20	20	20	20	20	20	20	20	20	20	20	20
TOTAL EXPENSES	385	405	385	485	405	385	385	485	385	385	405	685
BALANCE	+65	+45	+65	-35	+45	+65	+65	-35	+65	+65	+45	235
SAVINGS?												
BORROWING?												

PF4

MR. X's FAMILY BUDGET FOR 12 MONTHS

ITEM	MONTH											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
INCOME:												
Gross (total) Pay	500	500	500	500	500	500	500	500	500	500	500	500
Payroll Deductions	50	50	50	50	50	50	50	50	50	50	50	50
Net (Take Home) Pay	450	450	450	450	450	450	450	450	450	450	450	450
EXPENSES:												
Food	100	100	100	100	100	100	100	100	100	100	100	100
House payments	120	120	120	120	120	120	120	120	120	120	120	120
Utilities	25	25	25	25	25	25	25	25	25	25	25	25
Clothing	20	20	20	20	20	20	20	20	20	20	20	20
Drugs	10	10	10	10	10	10	10	10	10	10	10	10
Car - gas, oil	20	20	20	20	20	20	20	20	20	20	20	20
- payments	70	70	70	70	70	70	70	70	70	70	70	70
- licence				25								
Insurance												
- life								80				
- hospital		20			20			20			20	
- car				75								
Taxes												300
Other expenses	20	20	20	20	20	20	20	20	20	20	20	20
Payments chester-field												
TOTAL EXPENSES												
BALANCE												
SAVINGS?												
BORROWING?												

PF5

MR. X'S FAMILY BUDGET FOR 12 MONTHS

ITEM	MONTH											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
INCOME:												
Gross (total) Pay	500	500	500	500	500	500	500	500	500	500	500	500
Payroll Deductions	50	50	50	50	50	50	50	50	50	50	50	50
Net (Take Home) Pay	450	450	450	450	450	450	450	450	450	450	450	450
EXPENSES:												
Food	100	100	100	100	100	100	100	100	100	100	100	100
House payments	120	120	120	120	120	120	120	120	120	120	120	120
Utilities	25	25	25	25	25	25	25	25	25	25	25	25
Clothing	20	20	20	20	20	20	20	20	20	20	20	20
Drugs	10	10	10	10	10	10	10	10	10	10	10	10
Car - gas, oil	20	20	20	20	20	20	20	20	20	20	20	20
- payments	70	70	70	70	70	70	70	70	70	70	70	70
- licence				25								
Insurance												
- life								80				
- hospital		20			20			20			20	
- car				75								
Taxes												300
Other expenses	20	20	20	20	20	20	20	20	20	20	20	20
Payments chester-field												
TOTAL EXPENSES												
BALANCE												
SAVINGS?												
BORROWING?												

PF4

MR. X's FAMILY BUDGET FOR 12 MONTHS

ITEM	MONTH											
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
INCOME:												
Gross (total) Pay	500	500	500	500	500	500	500	500	500	500	500	500
Payroll Deductions	50	50	50	50	50	50	50	50	50	50	50	50
Net (Take Home) Pay												
EXPENSES:												
Food	100	100	100	100	100	100	100	100	100	100	100	100
House payments	120	120	120	120	120	120	120	120	120	120	120	120
Utilities	25	25	25	25	25	25	25	25	25	25	25	25
Clothing	20	20	20	20	20	20	20	20	20	20	20	20
Drugs	10	10	10	10	10	10	10	10	10	10	10	10
Car - gas, oil	20	20	20	20	20	20	20	20	20	20	20	20
- payments	70	70	70	70	70	70	70	70	70	70	70	70
- licence				25								
Insurance												
- life								80				
- hospital		20			20			20			20	
- car				75								
Taxes												300
Other expenses	20	20	20	20	20	20	20	20	20	20	20	20
Payments chesterfield												
TOTAL EXPENSES												
BALANCE												
SAVINGS?												
BORROWING?												

SUBJECT PERSONAL FINANCE

LESSON PF5 CALCULATING INTEREST

INSTRUCTOR'S GUIDE

OVERVIEW

From the previous lessons in personal finance, the students should have an interest in better money management. Knowing about good money management and putting the knowledge to work are quite different. Some students may become frustrated with the work involved in managing family money matters. They may need encouragement from the instructor. Money management becomes easier as a person acquires experience.

This lesson on calculating interest rates is a logical step from the consumer credit lesson. In order to compare the cost of borrowing, the student must know how to calculate interest rates.

Retail outlets, finance companies, etc. are now obliged by law to state the amount of interest paid as well as the rate of interest on a per month basis. But the law does not oblige these companies to include the finance charges such as life insurance etc. in the interest rate. The customer may want to know what his real rate of interest is, including the finance charges. Some sources of loans such as credit unions include all costs in their rates; others do not. The customer will have to calculate the rate of interest if he wishes this information.

OBJECTIVES

Given the information, the students will calculate:

1. Simple interest.
2. Compound interest.

3. Actual yearly interest rate on different types of consumer credit.

REFERENCE MATERIALS FOR INSTRUCTOR

1. Brown, N.E. Consumer Education. Toronto: The MacMillan Co. of Canada Ltd., 1967, pp. 18 - 24.
2. Any book of mathematics such as: Frankson and Fribelstein. Mathematics: A Basic Course.

RESOURCES REQUIRED

1. Projectual PF5-1, "Simple Interest Formula".
2. Pamphlet, "Managing Your Money" for each student, obtainable from CUNA International Inc., Box 431, Madison, Wisconsin, 53701.
3. Two flip charts.
4. Case PF4-1, "Mr. X's Family Budget, Part Two"

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In this lesson you will learn how to calculate interest on savings, loans, and other kinds of consumer credit.

INTRODUCTION

Interest is money paid for the use of money. It is like paying rent for the use of someone's car or house. Interest is a payment made for using another person's money.

You earn interest on SAVINGS; you have to pay interest on BORROWED money. As a family man and as a businessman, you should know how to calculate the rate of interest on savings and on money you borrow. For example, you have to know how to calculate the rate of interest if you want to compare the cost of using different sources of credit.

OBJECTIVE 1: GIVEN THE INFORMATION, THE STUDENTS WILL CALCULATE SIMPLE INTEREST.

Stimulus

2. Ask: "Suppose you lend someone $100.00 for 1 year. Should you charge him for the use of your money? If so, how much would you charge?"

Clarify Problem

3. List the students' suggestions on the flip chart and discuss.

Provide Information

4. Read Section 1 of the Readings. The four examples provided in Section 1 provide information on the following:

   a. Definitions of the words amount, principal and interest. You may ask the group for personal examples. Put the equation AMOUNT = PRINCIPAL + INTEREST on the flip chart.

   b. The meaning of time and rate of interest. Show Projectual PF5-1, "Simple Interest Formula" and explain the letters P x R x T = I. Tell the group that this is called the SIMPLE INTEREST FORMULA.

   c. The calculation of simple interest when the time period is for more than 1 year.

   d. The calculation of simple interest when time period is less than 1 year.

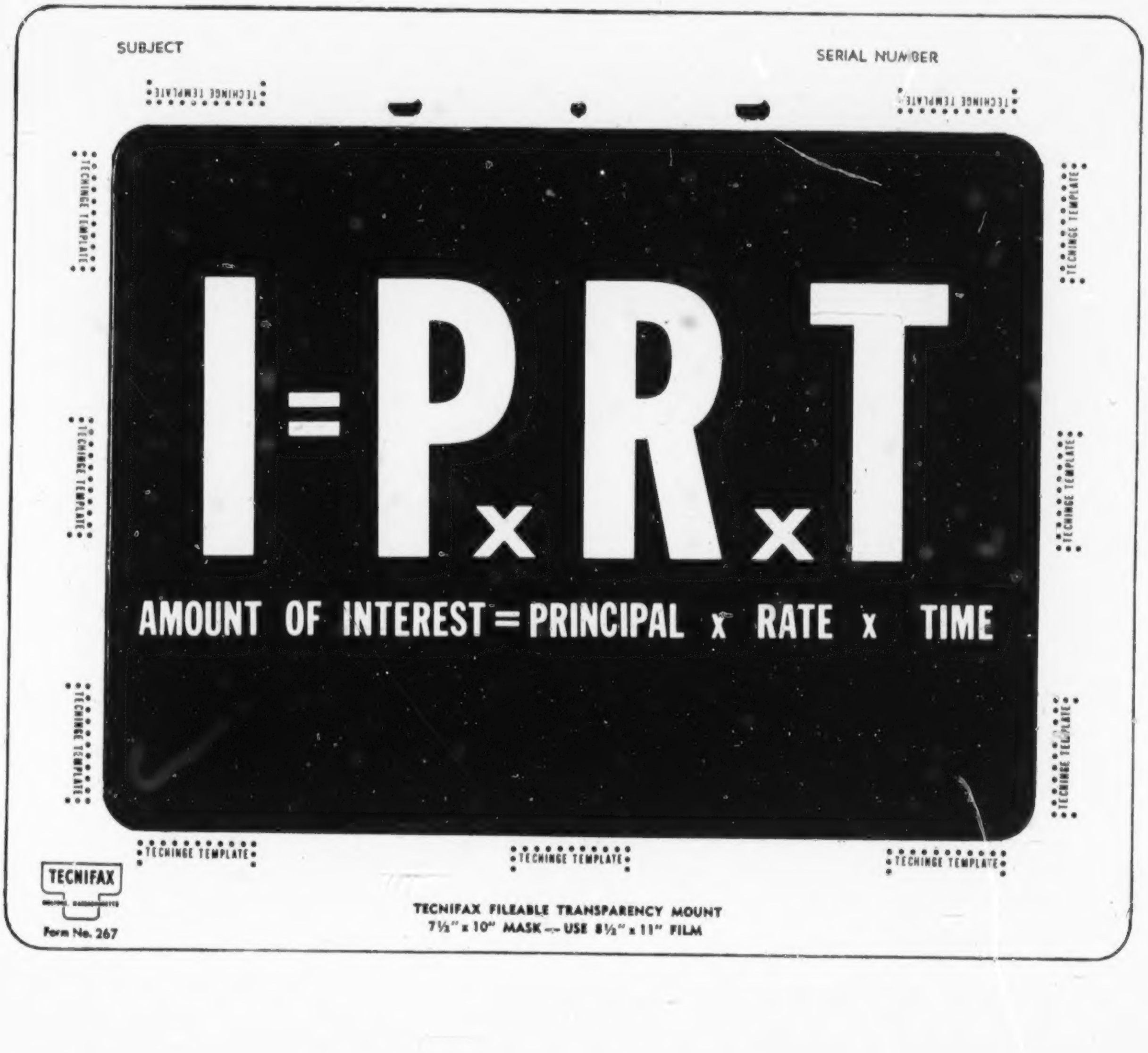
CONTENT

1. How to Calculate Simple Interest

Before you can learn to calculate interest, you should know the meaning of some words.

PF5

PF5-1 SIMPLE INTEREST FORMULA



$$I = P \times R \times T$$

AMOUNT OF INTEREST = PRINCIPAL x RATE x TIME

SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK -- USE 8½" x 11" FILM

Suppose you lend your friend $100 of your savings and he agrees to pay you back $110. Since interest is the money paid for the use of money, you will earn $10 interest for lending your friend your savings.

The $10 is called the INTEREST.

The $100 is called the PRINCIPAL.

The $110 is called the AMOUNT (to be repaid).

AMOUNT = PRINCIPAL + INTEREST

$110 = $100 + $10.

Usually, you lend or invest your savings only for a certain period of time. At the end of this period, you expect to get paid back what you lent or invested plus a certain per cent of what you lent as payment for the use of your money.

Suppose you lend your friend $100 of your savings and he agrees to pay you back the $100 in one year plus 10% of the $100 for the use of your money.

The period of time (one year in this example) is called the TIME of the loan or investment.

The percentage interest (10% in this example) is called the RATE OF INTEREST.

We can calculate this by using the SIMPLE INTEREST FORMULA:

Interest = Principal ($) x Rate of Interest (%) x Time Period
INTEREST = PRINCIPAL x RATE x TIME.

This formula can also be shown as:
I - P X R x T where I = Dollar amount of interest
P = Principal
R = Rate of Interest
T = Time in years

Interest = $100 x 10% x 1 year
= $100 x .01 x 1
= $10.

The AMOUNT you will get paid back can be calculated by using formula:

AMOUNT = PRINCIPAL + INTEREST
= \$100 + \$10
= \$110

Paying INTEREST of \$10 for the use of \$100 for one year is the same as paying a 10% RATE OF INTEREST.

Interest is usually shown as a percentage per year. Before you can calculate the amount of interest, you have to change the rate of interest to a decimal and then multiply it times the principal and the time period.

Example 1

Mr. Henry needs \$2,000 for his business. He borrows \$4,000 from you and agrees to pay it back in 2 years at a rate of 5% per year. How much interest do you earn on your money?

Solution:

P = \$2,000
R = $\frac{5}{100}$ or .05
T = 2

I= Px R x T
I = \$2,000 x .05 x 2
I - \$2,000 x .10
I = \$200

How much does Mr. Henry pay you at the end of two years?

AMOUNT = PRINCIPAL + INTEREST
= \$2,000 + \$200
= \$2,200.

Example 2

Suppose you put your savings of \$300 in a savings account in the bank for six months and the bank pays interest at a rate of 5% on savings accounts.

How much interest will you earn in 6 months?

Solution:

Time is 6 months, which is 1/2 or .5 of a year.

$$\begin{aligned} I &= P \times R \times T \\ &= \$300 \times .05 \times .5 \\ &= \$7.50 \end{aligned}$$

5. Read Section 2 of the Readings. Ask each of the students to solve the three sample problems using the simple interest formula I = PRT. Give additional sample problems if needed, and make sure the students understand this section before going any further in this lesson.

2. Sample Problems on Simple Interest

   a. Find the simple interest on $900 for 2 years at a rate of 4%.

   b. Find the simple interest on $300 for 18 months at a rate of 10%.

   c. Ted Johnson bought a Canada Savings Bond worth $500. The bond pays interest at a rate of 8% per year. How much interest did Ted earn the first year. How much money would he get if he cashed the bond at the end of the first year?

6. Solutions:

   a.
   $$\begin{aligned} I &= PRT \\ &= \$900 \times .04 \times 2 \\ &= \$36 \times 2 \\ & \$72 \end{aligned}$$

   b.
   $$\begin{aligned} I &= PRT \\ &= \$300 \times .10 \times 1.5 \\ &= 30 \times 1.5 \\ &= \$45 \end{aligned}$$

   c. (1) interest earned in first year:
   $$\begin{aligned} I &= PRT \\ &= \$500 \times .08 \times 1 \\ &= \$40 \end{aligned}$$

   (2) amount he would get if he cashed the bond at end of the first year:
   $$\begin{aligned} A &= P + I \\ &= \$500 + 40 \\ &= \$540 \end{aligned}$$

Indicator

7. Instructor should give students additional exercises to check their understanding.

OBJECTIVE 2: GIVEN THE INFORMATION, THE STUDENTS WILL CALCULATE COMPOUND INTEREST.

Stimulus

1. Ask: "What is the difference between simple and compound interest?" Discuss.

Clarify Problem

2. Use the flip chart to show that, using the same interest rate, you can earn more money on your savings if the interest is compounded than you can if simple interest is calculated.

Provide Information

3. Read Section 3 of the Readings. Work through the example, assisting those students who are having difficulties. Use the flip chart to illustrate the basic difference between simple and compound interest calculations.

3. How to Calculate Compound Interest

The interest we have been calculating is called SIMPLE INTEREST. It is called simple interest because it is paid on the principal only. We looked at one principal (amount of money) being loaned or invested for a period of time and then being paid back or withdrawn.

But what happens when interest is paid on both the principal and the previously-earned interest?

Suppose you lend a friend $100 of your savings for 3 years and he agrees to pay you back at a rate of 10% compound interest per year. How much interest will you earn at the end of 3 years? First, you must calculate how much interest you earned in the first year.

I = P x R x T
= \$100 x .10 x 1
= \$10

Then, you calculate how much interest you earned in the second year. To do this you have to ask yourself: "What is the principal in the second year?". That is: "How much money does he owe me at the beginning (and throughout) the second year?"

He owes you the original \$100 plus the \$10 interest that you earned during the first year. Therefore, the amount of the principal during the second year is \$100 + \$10 = \$110. Now you can calculate how much interest you have earned in the second year.

I = P x R x T
= \$110 x .10 x 1
= \$11

Finally, you calculate how much interest you earned in the third year. Ask yourself: "What is the new principal?". "How much money does he owe me at the beginning (and throughout the third year?"

He owes you the original \$100, plus the \$10 interest for the first year, plus the \$11 interest earned during the second year. Therefore, the new principal for the third year is \$100 + \$10 + \$11 = \$121. Now you can calculate how much interest you have earned in the third year.

I = P x R x T
= \$121 x .10 x 1
= \$12.10

At the end of three years, you have earned a total of : \$10 + \$11 + \$12.10 = \$33.10 in interest.

The \$33.10 interest in this example is called COMPOUND INTEREST. It is called compound because it is calculated on interest. In other words, compound interest is interest paid on the principal plus any interest that has already been earned. This interest is said to be compounded. Interest may be compounded annually, semi-annually or quarterly.

You earn more money on your savings when interest is compounded. For example, the compound interest on the example above was \$33.10. Simple interest would have earned only \$30 interest.

PF5

SIMPLE INTEREST	COMPOUND INTEREST
1st Year: I = P x R x T = $100 x .10 x 1 = $10	I = P x R x T = $100 x .10 x 1 = $10
2nd Year: (same principal) $100 I = P x R x T = $100 x .10 x 1 = $10	(principal changes) $100 + $10 = $100 (new principal) I = P x R x T = $110 x .10 x 1 = $11
3rd Year: (same principal) $100 I = P x R x T = $100 x .10 x 1 = $10	(principal changes) $100 + $11 = $121 (new principal) I = P x R x T = $121 x .10 x 1 = $12.10
Total Interest 1st year = $10.00 2nd year = $10.00 3rd year = $10.00 $30.00 Amount to be repaid = $100 + $30 - $130	Total Interest 1st year = $10.00 2nd year = $11.00 3rd year = $12.10 $33.10 Amount to be repaid = $100 + $33.10 = $133.10

4. Read Section 4 of the Readings and have students work through the examples.

4. Sample Problems on Compound Interest

a. Mr. Sam put $400 into a savings account. The bank paid him 3% interest on his money compounded every year. How much did Mr. Sam have in the bank at the end of 3 years?

b. If you lend a friend $200 for two years at an interest rate of 5% compounded every year, how much money will he owe you at the end of two years?

c. If you lend another friend $200 for two years at a simple interest rate of 5% how much will the friend owe you at the end of two years?

5. Solutions:

a. (1) Interest earned the first year:

I = P x R x T
= $400 x 3/100 x 1
= $400 x .03 x 1
= $12

New principal: $400 + $12 = $412

(2) Interest earned the second year:

I = P x R x T
= $412 x 3/100 x 1
= $412 x .03 x 1
= $12.36

(3) Interest earned the third year:

I = P x R x T
= $424.36 x 3/100 x 1
= $424.36 x .03 x 1
= $12.73

New principal: $424.36 + $12.73 = $437.09

At the end of three years: $437.09

b. (1) Interest earned the first year:

$$I = P \times R \times T$$
$$= \$200 \times 5/100 \times 1$$
$$= \$200 \times .05 \times 1$$
$$= \$10$$

New principal: $200 + $10 = $210

(2) Interest earned the second year:

$$I = P \times R \times T$$
$$= \$210 \times 5/100 \times 1$$
$$= \$210 \times .05 \times 1$$
$$= \$10.50$$

New principal: $210 + $10.50 = $220.50

At end of two years: $\underline{\underline{\$220.50}}$

c. $$I = P \times R \times T$$
$$= \$200 \times 5/100 \times 2$$
$$= \$200 \times .05 \times 2$$
$$= \$20$$

At end of two years: $200 x $20 = $\underline{\underline{\$220}}$

6. Explain that compound interest tables make it easier to solve interest problems. These tables show how much $1 will amount to at 1%, 2%, 3%, up to 10% interest compounded by time periods that are usually one year. Discuss Section 5 of the Readings.

5. Compound Interest Table

Sometimes it is easier to solve compound interest problems by using a table of compound interest factors like the one shown on the following page.

No. of Periods	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.102	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358
10	1.105	1.219	1.344	1.480	1.629	1.791	1.967	2.159	2.367	2.594

Example (using table)

Suppose you lend a friend $100 of your savings for 3 years and he agrees to pay you back at a rate of 10% compounded interest per year.

What is the total amount to be repaid at the end of 3 years?

Solution:

Years = 3
Interest rate = 10%
Factor = 1.331 (from compound interest table)
Total amount to be repaid = $100 x 1.331
= $133.10

Now go back and calculate the sample problems in Section 4 above using the compound interest table.

7. The instructor should explain that accurate compound interest tables generally have seven numbers after the decimal place.

the compound interest factor that should be used in each problem in Section 4 is as follows:

a. 1.0927270
b. 1.1025000
c. a simple interest problem

Indicator

8. Give the students the following problems to solve using the compound interest table.

	Principal	Rate of Interest	Interest Compounded	Time Period
a.	$ 300	4%	Annually	1 year
b.	5,000	5%	Semi-annually	4 years
c.	15,000	7%	Annually	5 years
d.	500	8%	June 30, Dec. 31	1 year

	Compound Interest Factor	Answer
a.	1.0400000	312.00
b.	1.4774554	7,387.28
c.	1.4025517	21,038.28
d.	1.0800000	583.20

OBJECTIVE 3: GIVEN THE INFORMATION, THE STUDENTS WILL CALCULATE THE ACTUAL YEARLY INTEREST RATE ON DIFFERENT TYPES OF CONSUMER CREDIT.

Stimulus

1. Ask the students to share some experiences they have had with instalment buying (monthly payments with carrying charges).

Clarify Problem

2. List some of the students' examples on the flip chart and discuss. Emphasize the importance of their being able to figure out how much it is costing them to buy on various instalment plans.

Provide Information

3. Read and discuss Section 6 of the Readings. The instructor may provide examples which will make the lesson more specific or he may use examples provided by students. Point out that it is not as important to memorize the different interest formulas as it is to understand when a particular formula can be used.

6. How to Calculate Interest on Consumer Credit

Many people have no idea how much their loans or retail credit costs them. They don't realize that interest rates are often high and they end up paying back a lot more than they borrowed. A large part of the problem is due to the fact that most people don't know how to calculate interest or interest rates.

You should learn how to calculate interest on consumer credit. You will then be able to know what it will cost you to borrow money or charge things. You will be able to buy things the cheapest way possible. The easiest way to compare the cost of buying on credit is to calculate the actual yearly rates of interest being charged. There are several ways of doing this:

a. Using the formula: $R = \frac{I}{P \times T}$

$$\text{Yearly rate of interest} = \frac{\text{Amount of Interest}}{\text{Principal x Time Period in Years}}$$

This comes from the simple interest formula: $I = P \times R \times T$.

Example:

John borrowed $300 from a bank and paid back $330 one year later. What rate of interest did he pay?

Solution: $R = \frac{I}{PxT} = \frac{\$30}{300 \times 1} = \frac{\$30}{300} = \frac{1}{10} = 10\%$

b. Another way to calculate the rate of interest on consumer credit is by using the Constant Ratio Formula.

$$R = \frac{200 \times Y \times I}{P \times (N + 1)}$$

R = the actual annual rate of interest

Y = the number of payments in a year (12, 4, 2, 1)

I = cost of loan (interest) or if a charge account, the carrying charges.

P = money actually received (or the amount to be financed on the article you are buying)

N = the number of payments you will make.

This formula is used to calculate the rate of interest you actually pay on the different instalment credit plans. Instalment credit plans are the ones where you make payments over a period of several months or several years.

c. A third way to find the rate of interest is to multiply the stated monthly rate of interest charged on the unpaid balance by 12. This will give you the actual yearly rate of interest (for example, 2% per month on unpaid balance. The actual yearly interest rate = 2% x 12 or 24%).

Example

Mr. John Wilson wished to purchase a chesterfield priced at $525. He could make a down payment of $45 and pay the first instalment one month after the date of the purchase. To determine the best credit arrangement, he compared the following information:

Plan 1

His bank would lend him $480 for which the rate of interest was 7% per year, on the declining balance. He would repay the loan at $60 per month plus interest.

Plan 2

The Happy Loan Company would lend him $480 which he could repay in 18 equal monthly instalments. Interest would be charged at the rate of 9% per year based on $480 being outstanding for the full 18 months. (Interest is not calculated on the declining balance).

Plan 3

He could pay the balance of $480 to the store in 24 monthly instalments of $25 each.

What are the actual interest rates Mr. John Wilson will pay on each of these plans?

Solution

Plan 1

Number of monthly instalments will be $\frac{480}{60} = 8$

Interest is charged as follows:

Month	Interest
1	$480 x .07 x 1/12 = $2.80
2	420 x .07 x 1/12 = 2.45
3	360 x .07 x 1/12 = 2.10
4	300 x .07 x 1/12 = 1.75
5	240 x .07 x 1/12 = 1.05
6	180 x .07 x 1/12 = 1.05
7	120 x .07 x 1/12 = .70
8	60 x .07 x 1/12 = .35
	TOTAL 12.60

Amount of interest charged = $12.60

Total cost of chesterfield: $480 + $45 + $12.60 = $537.60

The actual yearly rate of interest will be 7% as the bank stated. This is true because 7% was used to calculate each month's interest on the amount Mr. Wilson owed the bank during that month (the declining balance).

Plan 2

First you have to calculate the amount of interest.

P = $480
R = 9/100 (or .09)
T = 18/12 (or 1.5)
I = P X R x T
= $480 x .09 x 1.5
= $64.80

Therefore the amount of interest will be $64.80. The total cost of the chesterfield will be $480 + $45 + $64.80 = $589.80.

To calculate the actual rate of interest, use the formula:

$$R = \frac{200 \times Y \times I}{P \times (N + 1)}$$

Y = 12
I = $64.80
P = $480
N = 18

$$R = \frac{200 \times 12 \times \$64.80}{\$480 \times (18 + 1)} = \frac{155520}{9120} = 17\%$$

The actual yearly rate of interest will be approximately 17%.

NOTE: This is a lot higher than the 8% stated by Happy Loan Company. The 17% rate of interest is due to the fact that you don't owe the loan company the full $480 for every month of the 18 months.

Plan 3

The total amount paid for the chesterfield will be (24 x $25) + $45 = $645.

The amount of interest charged will be $645 - $525 = $120

To calculate the actual rate of interest use this formula:

$$R = \frac{200 \times Y \times I}{P \times (N + 1)}$$

Y = 12
I = $120
P = $480
N = 24

$$R = \frac{200 \times 12 \times 120}{480 \times (24 + 1)} = \frac{2880}{12000} = 24\%$$

The actual yearly rate of interest is 24%.

Mr. Wilson can obtain the best credit plan from the bank because the actual yearly rate of interest is the lowest.

4. Read Section 7 of the Readings.

7. Summary

Calculating the real rate of interest can be very valuable when shopping for credit. It allows you to compare the actual and exact costs of credit from different sources.

Indicator

5. Refer students back to Case PF4-1, "Mr X's Family Budget, Part Two" and ask them to calculate the rates of interest for each of the three credit plans. Discuss.

6. Several problems are listed below if the instructor considers additional work necessary.

   a. Peter Hogan borrowed $700 from the Jasper Finance Company. He repaid the loan in 17 monthly payments of $46.50 each. What was the rate of interest?

   Answer:
   Cost of Loan = Total amount repaid less cash received
   = ($46.50 x 17) - $700
   = $769.50 - $700
   = $90.50

   $$R = \frac{200 \times Y \times I}{P \times (N + 1)}$$

   $$= \frac{200 \times 12 \times 90.50}{700 \times (17 + 1)}$$

   $$= \frac{2172}{126}$$

   $$= 17\%$$

   b. Dan Shore purchased a new dining room suite for $685. He paid $125 cash and the balance in 28 monthly instalments of $23 each. What was the rate of interest?

   Answer: 12%

   c. Crafts Limited purchased a new machine for $3,600. The machine was paid for in 12 quarterly instalments of $336.50 each. What was the rate of interest?

   Answer: 7.5%

   d. Gloria Homes purchases a new stove for $250. The stove was paid for in 15 monthly instalments of $19.11 each. What was the rate of interest?

   Answer: 22%

e. To pay for his vacation, John Airborn borrowed $1,200 from his bank. He repaid the loan in 30 monthly instalments of $47.23 each. What was the rate of interest?

Answer: 14%

f. Mr. Dick bought a new car for $4,000. He financed the car through the car dealer's easy finance plan. He agreed to pay $171 dollars a month for 3 years. What rate of interest was Mr. Dick paying?

Answer: 35%

SUBJECT MANAGEMENT PROCESS

LESSON MP10 THE SECOND PROJECT

INSTRUCTOR'S GUIDE

OVERVIEW

The second project should provide the students with an opportunity to overcome some of the difficulties they experienced in the first project and to further develop their skills in planning and carrying out a project.

The instructor should not be surprised if the students hesitate to start a second project. The first project is often a painful experience due to lack of experience and training. The students should look at the second project as a way to avoid, or perhaps deal more effectively with, the problems encountered in the first project, and as a way to gain experience. In a project, very little money is involved and much experience is possible. Students may feel indifferent about the project since they do not earn sufficient money to warrant the work involved. The instructor should stress the importance of gaining some experience in a situation where they have little to lose. Some of the experience in planning, marketing, personnel, etc. could prevent more costly mistakes in the future when the business is real, and a large sum of money is involved.

The instructor should encourage and stimulate the students without planning or doing the project for them. Remember that enthusiasm is contagious; if the students are in contact with an enthusiastic instructor, they will probably gain more from the project. The instructor will want to follow their progress closely so that they do not become discouraged by the problems they encounter.

Making a project coincide with some special occasion in the school or the community may greatly facilitate its progress.

MP10

OBJECTIVE

The students will plan, organize, and carry out a short-term business venture.

RESOURCES REQUIRED

1. These will vary with the nature of the projects undertaken.

METHODOLOGY

1. Hand out the Readings; read and discuss the Purpose and Introduction.

PURPOSE

In lesson MP8, you operated your first short-term business venture. In this lesson you will undertake a second project to provide you with more experience in planning and carrying out a business venture.

INTRODUCTION

You have had an opportunity to study many aspects of business since your last practical project. This new information should help you to plan and carry out your second project more easily.

The main objective of the second project is to give you more experience with group work in a business venture.

You will find that this project will bring you even more new experiences and opportunities for learning about the practical side of business. This is information that you cannot get in class, although class study will help you to gain the knowledge you need more quickly. This project, of course, will not replace actual business experience, but it will give you some feeling for the practical aspects of business.

MP10

OBJECTIVE: THE STUDENTS WILL PLAN, ORGANIZE, AND CARRY OUT A SHORT-TERM BUSINESS PROJECT.

Stimulus

2. Ask the students to summarize what they learned in the first project. List their experiences on the flip chart.

Clarify Problem

3. Have the students discuss how they might avoid or solve more easily some of the problems they encountered in the first project. Ask each project group to share their experiences. Although this may already have been done at the end of the first project, the review here will be useful.

Provide Information

4. Ask the students to read and discuss each section of the Readings.

CONTENT

1. Planning and Organizing the Second Project

The second project can be planned and organized in much the same way as the first project (see lesson MP8, "The Planning Function Reviewed: First Project"). It will be useful to review the Guidelines and instructions given in that lesson.

You should choose [illegible] project somewhat more involved than the first project so that you gain new experiences. You may, as a class, work on one project, or divide into groups and work on several projects. Remember that the larger the group, the more difficult co-ordination becomes; and the more the situation will resemble many real businesses.

2. How Will This Project Differ from the First?

The second project should, in addition to the emphasis placed on the planning and the carrying out of the project, pay special attention to the organizing function of a business. You had an opportunity to study a number of Personnel Management lessons and you have seen what is involved in organizing.

See if it is possible to save time and be more productive by giving the different persons in the project group specific responsibilities; for example: Choose someone to be manager. Choose another person to be responsible for marketing, bookkeeping and accounting, purchasing, etc.

In addition, you should consider how you will check (control) the work of each person. The person who accepts the most responsibility will be the one who learns the most from the project.

This second project should give you the following experiences:

a. You will have an opportunity to see if you can avoid the problems of the first project.

b. You will learn better planning techniques. Is it possible to plan expenses and revenue in some detail and with precision?

c. You will be able to use the information you learned in the lessons on personnel and on the organizing functions.

d. You will end the project with a good set of books. This should include a Profit and Loss Statement and a Balance Sheet.

e. You will be able to plan and carry out a good marketing program for your project.

3. Types of Projects

The projects are limited only by your imagination and the time which your instructor will allow you. Some groups may wish to start a project which involves production of a product such as handicraft or Christmas cards.

You may want to involve other students or friends in the labour force outside of class time. It is important to remember, however, that it is a Small Business Management group who is responsible for all management.

4. Using Leadership Skills

The business projects' success will depend considerably on the leadership which group members will contribute. The business project is an opportunity to develop and test your leadership and management skills. Project group members will get experience in organizing to get the good co-operation of all members involved in the project. It is obvious everyone cannot be the manager of the project, but the success of the project depends on a shared type of leadership where everyone helps to do the best possible job.

5. Summary

Much useful experience can be gained through a business project. The money you may make in the project should not be your prime concern. The experience you get is much more valuable. Students who have been involved in projects are in agreement that there is usually a lot of hard work involved in a project but the project was a great learning experience.

5. Ask the students to plan the second project in a general way so that each student knows with which group he will work. Then they should review lesson MP8. Class time can be provided to plan the project.

   When the students are ready with the first outline, they can share their business project plans with the class. The students should discuss their plans to give each other ideas on how to approach the project.

6. It is difficult to say how much class time should be devoted to the project -- perhaps five days of actual business operation. The instructor will have to judge the amount of time he feels should be allotted. The time devoted to the project should be spread over a period of two or three weeks, depending on its nature. It is important that the students be given time limits in which to work, although these may have to be changed later. This encourages them to plan, to organize and to make arrangements for certain resources that require advance notice. The lessons which follow can be covered in the time between the start and the end of the project.

Indicator

7. Have the students prepare a written report covering all aspects of the project, as well as a complete financial report. Remind the students that this is also an exercise in report-writing. Either give the students guidelines to follow in writing the report, or have the student determine for themselves the format of the report. A review of lesson BC3, "Writing Business Letters and Reports" may be helpful.

8. Following the completion of the written reports, the students should be ready to discuss the projects with the class.

   Points the instructor may want to bring out are listed below:

   a. What were the highlights of the project?

   b. What were the disappointing aspects of the project? Why? What should be done differently next time?

   c. How did the second project differ from the first? What new learning took place?

   d. Review each subject: Finance, Accounting, Bookkeeping; Marketing; Personnel Management; Production Management; Office Procedures; Business Communications; Management Process; Business Law; and discuss how the different lessons in each subject apply to the project. With a number of different projects in the class, there should be a varied and worthwhile learning experience.

9. Encourage students to delve into and ask questions about each other's projects. Have them compare successes and failures and the reasons for these. If some students feel their project was a failure, they should be encouraged to analyze the planning, organizing and directing of their project to see what they might have done differently.

   An unsuccessful project can provide almost as much learning as a successful project if the reasons for the failure are analyzed so that the students understand and can see how to avoid the problem in the future.

10. The students should plan how they are going to wind up the project (distribute a profit or absorb a loss).

SUBJECT MANAGEMENT PROCESS

LESSON MP11 THE DIRECTING FUNCTION

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson is a good opportunity to have the students review and put into perspective the Management Process lessons. Many students see the directing function -- giving orders and seeing that people carry out the plans of the business -- as the manager's real job. Directing at the middle or lower management level, where supervisors and foremen work with employees to get the work done, is the job with which they have been most in contact in the past.

In most small businesses, the owner-manager himself will likely be involved very much in this directing function, since he will be working directly with the employees. In larger businesses, the manager also has a directing function -- he directs the supervisors or foremen, and they in turn direct the other employees.

This type of perspective can be useful to the students. They can relate the directing function to the jobs with which they are familiar, that of a boss who gives orders to get work done. The students should see that, in the small business, the manager is involved in planning and organizing as well as seeing that the work is done. In the lesson on controlling, the students will see the ways in which the manager controls whether or not the business is meeting it's objectives.

This lesson introduces a number of new concepts which will probably have only a vague meaning for the studnets and which may confuse them. To avoid this, the instructor will have to draw on his knowledge and experience to illustrate the points made in the lesson. The students should see that this lesson deals with helping him to become a better boss, one who treats the employees in a very human way, yet still accomplishes the objectives of the business.

MP11

OBJECTIVE

The students will be able to outline the directing function of various positions in a business.

REFERENCE MATERIALS FOR INSTRUCTOR

1. Longenecker, Justin G. Principles of Management and Organizational Behaviour. 2nd ed. Columbus, Ohio: Charles E. Merrill Publishing Co., 1969, pp. 493 - 536.
2. Flippo, Edwin B. Management: A Behavioural Approach. 2nd ed. Boston: Allyn and Bacon Inc., 1970, pp. 277 - 405.

RESOURCES REQUIRED

1. Flip chart.

METHODOLOGY

1. Hand out the Readings, and read the Purpose and Introduction.

OBJECTIVE: THE STUDENTS WILL BE ABLE TO OUTLINE THE DIRECTING FUNCTION OF VARIOUS POSITIONS IN A BUSINESS.

PURPOSE

This lesson will deal with the third management function: directing.

INTRODUCTION

A review of the two management functions studied previously will clarify how the directing function fits into management. You will recall that in lesson MP7, "The Planning Function", we looked at the planning functions of management. It is the responsibility of the people managing a business organization to plan for its future.

We saw that planning involves the studying the various alternatives which the business could follow in the fields of sales, production and personnel, and making a decision as to which alternative would be most beneficial for the business organization.

For example, an outfitting business may have to plan whether it would be profitable to have a store as an additional service for customers. A handicraft business may have to plan and decide if it should dry or tan its own hides. Business is always faced with decisions which require planning ahead.

In lesson MP9, "The Organizing Function", we saw that to carry out the plans, organizing is necessary when there is more than one employee involved in carrying out the plans. For example, authority must be delegated to those who can take responsibility and lines of communication must be clarified.

In this lesson, we go one step further. Directing involves the supervision and the guidance of the employees to see that they do their work effectively. Directing is the job of putting the plans into operation.

Supervision involves the observation and training of employees. In supervising it is necessary to instruct, explain, train and demonstrate so that the employees can do their jobs. Lessons PM5 to PM10 deal with recruiting, interviewing, selecting and training employees.

Guidance involves motivation, leadership and communication. The job description we talked about in lesson MP9 sets out an employee's duties and responsibilities, his authority and his accountability in general terms. The employee may know how to perform his routine task very well, but in the day-to-day operation of the business, special problems may arise which are difficult to set out on the job description or in the organizational manual. Directing involves helping employees deal with special problems. Directing is the job of management by which help, encouragement, motivation and guidance are provided to employees.

Stimulus

2. Ask the students for a definition of directing.

Clarify Problem

3. Ask the students to list on the flip chart the way in which a manager directs his employees.

A quick review of what management is and the need for planning and organizing may help the students to see directing in perspective. Directing is the task of getting the job done after the work has been planned and the business organized. In larger businesses, a lot of directing is usually needed to carry through the plans.

4. Have the students discuss supervision and guidance. Do they see supervision as constructing, explaining, training, and demonstrating so employees can do their jobs? Do they feel guidance involves helping an employee do his job when difficulties arise?

Provide Information

5. Read Sections 1, 2 and 3.

CONTENT

1. Directing Defined

Directing can be defined as the job of stimulating the organization to undertake the work required to implement the plans.

Since work is done by people, the small buisness manager must be able to do a good job of leading, motivating and communicating, counselling and disciplining the efforts of the employees who are to work towards the organization's goals. Directing includes all those activities which are designed to encourage subordinates to work efficiently and effectively in both the short and long run. Directing is a complex job since it involves combining the plans, the organizational structure and the employees (with their needs) into an operation which works towards the organization's objectives.

2. Directing and Human Needs

If the organization's objectives are to be reached, it will be through the employees of the organization. Directing is concerned with bringing out the best possible effort from the employees. Employees will be encouraged to make this effort if the manager knows how to provide leadership, how to motivate, communicate, discipline and reward.

The manager's job is to help the employees satisfy their needs in the work situation of the business organization.

This modern approach to management often replaces the dictatorial (hard boss) approach of the past, and attempts to maintain good relationships among employees. This does not mean the business will have no conflicts. There are bound to be some, but in resolving them, the employees are treated as significant human beings.

The manager who has a good knowledge of human needs and wants can gain the co-operation of the employees towards achieving the organization's objectives, so that both organizational goals and the individual needs are satisfied.

The manager can do much to encourage good work by treating everyone fairly, recognizing work well done, maintaining good morale and communicating clearly and precisely with employees.

3. Methods of Improving Directing Efficiency

The balance of this lesson will deal with methods of improving the manager's directing ability. This will be done by considering three topics: motivation, leadership and communication.

6. Discuss directing as defined by the students in the stimulus.

The student should note that directing can be more productive if the boss can satisfy the employee's needs as well as the organization's needs.

7. Read Section 4 of the Readings, stopping after each sub-section to discuss the possible effectiveness of the method in motivating employees to work effectively.

4. Motivation

Motivation is what causes people to act as they do. If we consider what motivates people to work, we must look at the reasons why people work. Motivation comes from within the persons who do the work.

It is quite common to think that people work for money. We have seen that there are other reasons besides money which motivate people to work. The manager who wants good results will consider all the human needs. Money will be only one of these needs or the means of satisfying only certain basic needs. There are other needs which do not

(6) Information: People usually like to know why they are doing their job. Although it is easy to take the attitude that the boss gives the orders and the employee carries them out, we should consider the employee's need for doing something worthwhile. It may well be worth the time to explain the reasons for a job or provide information about the business.

(7) Participation: An employee can often suggest better ways of doing a job and participate in improving the work. Through participation, employees are encouraged to take pride and interest in their work, and to feel that their talents are being used.

b. Negative Motivation

Some employees do their jobs because they fear their bosses, or they are afraid of losing their pay cheques or their jobs. This is negative motivation.

A manager may get the job done if he uses punishment, or threatens loss of job or income, or creates fear in some other form. However, this does not appear a very satisfactory way to motivate employees over a long-term period since the employee will be unhappy in this situation. A manager would be better off to see which type of positive motivation works best.

8. Have the students relate their own experiences with positive motivation (praise, recognization, responsibility, etc.).

Ask the studnets to relate their experiences with negative motivation. Was it as effective?

9. Read Section 5 of the Readings.

5. Leadership

Leadership is the managerial function of helping a group attain its objective. The leader may be said to guide a group toward its objectives. Leadership is the manager's ability to stimulate or initiate action in his subordinates. Through leadership a manager secures the co-operation and efforts of the employees of the organization.

involve money, yet managers who are not aware of these needs may try to use money to satisfy an unhappy employee. This can be costly to the business and still will not change the situation.

Let us consider some of the other needs which motivate employees. They may be classified as positive motivation or negative motivation.

a. Positive Motivation

(1) Praise: Praise is based on the esteem or "self" needs. If a job is well done, a manager can compliment the employee. Praise is an art which can be overused or misused; in some cases, it will not have the desired effect. Some managers expect good work as part of the job, and tend to overlook this powerful motivating factor which could create more satisfied employees.

(2) Recognition: People like to be recognized by others. Providing recognition of work well done, so that others in the organization know, gives additional positive motivation. Various awards and honours can help provide recognition.

(3) Responsibility: Some people need more responsibility in their jobs. To these people, the delegation of responsibility and authority will provide satisfaction and prestige. Others may have a greater need for security, and be scared by additional responsibility.

(4) Job Satisfaction: Most people want to feel that they are doing something worthwhile. A manager can often motivate an employee by showing him how his job fits into the business. Even jobs which appear unimportant are essential to the business. Employees in these jobs often do not get an accurate picture of how their jobs fit into the organization; a better understanding can provide more job satisfaction.

(5) Interest in People: The manager of an organization can create better morale by taking an interest in people. If an employee thinks that he does not count as a person, that he is only a number, his work can be affected. All of us need attention in some degree.

An organization's performance is closely related to the quality of leadership. Competent leadership is not only an important ingredient for successful operation, it is an essential one.

A poor leader can cause poor morale and destroy efficiency. Good leadership can change an average group of workers into a strong aggressive organization. Any approach which draws forth the efforts of one's subordinates represents leadership.

a. Qualities of a Good Leader

Few people agree completely on what the qualities of a good leader are. Generally included are objectivity, judgment, initiative, dependability, drive, a liking and understanding of people, and an ability to make decisions. Others are emotional stability, maturity, a strong desire to achieve and the ability to cooperate with others.

b. Leadership Style

In lesson PM3, "Different Styles of Leadership", you were introduced to the different ways a leader can function. Some leaders use a democratic (participative) style of leadership. They involve employees in the leadership role so that they can help lead the organization towards its objectives.

A boss who makes all the decisions without consulting his workers is using the autocratic (tough, dictator type) approach. The third approach is used by the easy going or lenient boss who can not make up his mind or make decisions. This is usually called the laissez faire approach.

Of course, these three approaches are only general trends; there are many ways in which a manager or boss may show authority over his subordinates. It is possible for a manager to adapt one type of leadership in one case and different type in another case or with a different group of employees, or to apply the same style in different degrees.

10. Ask the students to relate their experiences with good and poor leaders. Did the good leader have the qualities listed in the

lesson? Point out that the field of leadership is a very extensive one and that much work is being done in the study of leadership. The students will spend the rest of their lives learning from experience about people and ways of leading them.

11. Read Sections 6 and 7 of the Readings.

6. Communications

For a manager to effectively lead, guide and motivate his employees, he must be able to communicate with them.

Communication is the transmission of messages to others by words, gestures or signals.

Since we have already had a number of lessons and had some practice in business communications, it is sufficient here to show that communication is a part of directing. It is impossible [illegible] direct employees if instructions or orders given by the manager are not understood. Future lessons will deal in more detail with communication since it is an essential part of directing.

Every organization has rules which must be followed if it is to function. There will be rules for days of work, hours of work, timeliness, quality of work, and perhaps for dress, smoking or drinking, etc. It is important for the employee to know the rules ahead of time and know what disciplinary action will be taken if the rules are not followed. Poor discipline may lead to much waste of time and to poor production.

7. Summary

Directing involves the ways a manager ensures that employees carry out the plans of the organization. The ability to motivate, lead and communicate are all essential to guide and encourage the employees to do the work necessary to reach the organization's goals.

12. Discuss the importance of being able to communicate in business.

Indicator

13. In lesson MP9 "The Organizing Function", the students set up an organization chart for an outfitting camp.

Ask the students to continue with this example and to face the directing problems of the outfitting camp.

Ask the students to divide into three groups of approximately equal numbers. Ask each group to take one of the topics: lodging, food services or guiding services.

Ask the students to foresee the problems and successes they might encounter in directing their particular service. Have them list these problems and successes and indicate how the manager or supervisor might handle the situation to provide the employees with the most job satisfaction. There may be many ways of solving each problem.

Examples of problems:

a. employees are late for work
b. employees drink on the job
c. employee tells customer off, resulting in poor public relations.
d. employees not clean
e. employees give poor quality work.

Examples of good points:

a. employees are very courteous to customers
b. employees know their jobs very well.

These examples can be provided if the students have a difficult time getting started. They should be able to list many such problems for the different services, and be able to use the lesson suggestions to think of ways to deal with the problems. If they wish, allow the students to make assumptions about their particular service.

14. Ask the students to report back to the class their list of problems and good points and the ways in which they would expect to deal with them. Encourage the students who were in the other groups to comment and make alternative suggestions.

15. If necessary, review the lesson.

SUBJECT PERSONNEL MANAGEMENT

LESSON PM10 GIVING WORKERS RESPONSIBILITY AND
MEASURING THEIR PERFORMANCE

INSTRUCTOR'S GUIDE

OVERVIEW

Ultimately the owner-manager of a successful business discovers he can no longer do everything himself. That is, he must delegate some of his jobs to someone else. The purpose of this lesson is to make the students aware (or increase their awareness) of the factors involved in the delegation of responsibility and authority to others.

This concept is not easily conveyed through readings, questions and discussion only. Experience is the best teacher. Therefore the business projects undertaken in lesson MP8, "The Planning Function Reviewed: First Project", will give the students an opportunity to test their skills in delegation. Relate this lesson to the experience gained in the projects as much as possible.

Essentially the lesson asks: "What does the owner-manager of a business do when he can no longer do everything himself?" The lesson tries to provide or encourage the response: "He assigns or delegates work to others."

Communication is vital to effective delegation. If the owner-manager does not clearly explain what must be done, delegation is ineffective.

Follow-up and feedback are equally important. The follow-up program must be designed so that it provides the owner-manager with the maximum information possible. However, it must not destroy or unnecessarily restrict the initiative of the employee in doing his job.

The personality and character of the owner-manager must also be considered. Some people find it relatively easy to delegate while others find it very difficult. Quite often ease or difficulty in delegating cannot be predicted, it is only evident in practice. These are some of the difficulties which must be faced when dealing with this concept.

OBJECTIVES

1. The students will discuss the question of delegating responsibility and authority to someone else when the management jobs of the business become too much for one person.
2. The students will discuss the development and maintenance of a follow-up program to measure the performance of employees who have been given managerial responsibility.

REFERENCE MATERIAL FOR INSTRUCTOR

1. "Delegating Work and Responsibility", Small Marketers Aids, No. 191. Washington: Small Business Administration.

RESOURCES REQUIRED

1. Exercise PM10 - 1, "Too Many Jobs To Do".
2. Flip Chart.
3. Case PM10 - 1, "A One Man Show".
4. Flip chart sheets with the following statements written on them prior to presentation of the lesson:
    a. on one flip chart sheet: "George does not seem to do the job the way I would like but I guess he knows what he is doing." (owner talking)
    b. on one flip chart sheet: "I got Bob to help me out but he keeps running back to me with questions and suggestions. It's just as if I were still doing the job myself. Why doesn't he just do what I told him to do when I gave him the job. Can't he see I'm a busy man." (owner talking)
5. Film, "Breaking the Delegation Barrier" (30 minutes)

METHODOLOGY

1. Do not hand out Readings.

OBJECTIVE 1: THE STUDENTS WILL DISCUSS THE QUESTION OF DELEGATING RESPONSIBILITY AND AUTHORITY TO SOMEONE ELSE WHEN THE MANAGEMENT JOBS OF THE BUSINESS BECOME TOO MUCH FOR ONE PERSON.

Stimulus

2. Hand out Exercise PM10 - 1, "Too Many Jobs To Do". Present the exercise to students.

3. Ask the following questions and have one of the students list the answers (or suggestions) on the flip chart.

   a. "What do you think John Fisher should do about the fact that he can no longer do everything himself?" Discuss.

   b. "If he needs someone to help him out, what type of person should he hire?" Discuss.

   c. "Which jobs (from the list) should John Fisher continue to do himself and which jobs could he assign or give to his helper? Why:" Discuss.

   Suggestions:

   Have one member of the group list the numbers 1 to 15 on the flip chart (representing the 15 jobs or tasks listed in the exercise.) Encourage the students to try to reach a consensus on whether they would keep a certain job or give it to someone else. Write "boss" beside the positions which John Fisher would keep and write "worker" or "employee" beside the position numbers that he would delegate.

   Jot down some notes on reasons given by the students for not delegating (because they fear the employee would be dishonest, etc.). These notes could be useful when discussing the film, "Breaking the Delegating Barrier". If the students express fear of any kind, this would help relate the film (which is about big business) to the situation faced by small businessmen.

   d. "When you assign or give a job to someone else, what are you going to do to be sure that he knows what to do?"

Suggestion:

The students should recognize the importance of communicating and demonstrating what is to be done and how to do it. They have already covered some of this in the earlier lesson on training.

e. "After you have assigned or given a job to someone, you can forget about it and concentrate strictly on the other things you have to do?" Discuss.

Suggestion:

The students should recognize the need for feedback and for some method of checking to see if the job is being done properly.

f. "How would you go about checking to see that the job was actually being done?" Discuss.

Suggestion:

Let the students develop their own ideas here. The suggestions that they come up with will likely be far more relevant to their future business situations than the formal methods used in large companies.

g. "Would you continue to make all the decisions? All the time? What if you were away from your business for a few days and some trouble occurred with equipment? Would the employee you left in charge have to check with you before having a repairman come in?" Discuss.

Suggestion:

Try to keep the discussion from getting away from the topic too much. If the students tend to drift into looking at things from an employee's point of view, remind them that they are looking at this from John Fisher's (an owner-manager) point of view.

Provide Information

4. Hand out the Readings; read the Purpose, Introduction and Sections 1 to 3. Discuss each section and relate it to the exercise.

PURPOSE

In this lesson you will discuss what to do when it is no longer possible for you to handle all matters of your business by yourself. You will discuss giving workers the responsibility for certain jobs or tasks that you do not have time for and measuring how well they perform these tasks.

INTRODUCTION

As a manager, you will know what jobs and tasks have to be done to keep the business running smoothly. Jobs like ordering stock, making deposits at the bank or credit union, checking stock as it comes in, paying bills, paying employees, etc., will have to be done regularly and properly. If you will be doing all these things yourself, you will probably develop some sort of a schedule; that is, you will probably do certain things at certain times of the day or certain days of the week on a regular basis. You will know that the jobs will be done because you will be doing them. However, as a successful business grows and expands, you may not have the time to do everything by yourself.

CONTENT

1. What Happens When an Owner-Manager Can No Longer Do Everything Himself?

When the workload becomes more than you can handle by yourself, you will have to decide which of your tasks you can give up and then find someone to help you. That is, you will have to delegate (assign or give) some of your work to another person.

2. What is Delegation?

Delegation means giving another person the right to act for you.

When you delegate a job to someone else, you make that person responsible for seeing that the job gets done. However, if you make a person responsible for a job, you must also give him the authority (or power) that he needs to do the job. For example, suppose you make one of your employees responsible for the proper operation of your business when you are away on business matters.

If the meat freezer breaks down and you will not be back from your trip for two or three days, the employee must have the authority to hire somebody to repair the freezer. If he does not have this authority, you cannot blame him if all the meat spoils by the time you return.

3. Why is Delegation Important?

As soon as your business grows big enough so that you cannot do everything yourself, you will have to get somebody else to do some tasks for you. That is, you will have to delegate some work responsibility to another person. As the business gets bigger and bigger, you will have to delegate more and more. You cannot try to run "a one man show" and do everything yourself.

A manager has to learn to delegate. Good delegation makes the business run smoothly. However, some managers feel that they will lose their power if they delegate. They feel they must make all the decisions themselves.

Therefore, while it is easy enough to suggest that delegation is a good practice, there are still certain problems involved. For example, you will probably wonder:

a. if the person really knows what he is supposed to do
b. if the job is being done the way you want it to be done
c. if he is doing, or trying to do, the job
d. if a lot of mistakes are being made
e. if the person has the qualifications or ability to do the job that you expect of him.

Indicator

5. Hand out Case PM10 - 1, "A One Man Show". Read and clarify the case. Allow the students to make any assumptions that are necessary to analyze the case (unless such assumptions destroy the purpose of the case).

Discuss the questions at the end of the case. Following the students' answers, summarize the discussion, emphasizing any of the following points that may not have been suggested by the students:

a. Eric refuses to delegate - perhaps because of fear.

b. Eric must do or participate in everything himself - perhaps because he does not trust his workers.

c. Eric should:

(1) assign or give some jobs to other people
(2) explain duties fully
(3) show them what to do
(4) encourage questions and feedback
(5) check to see that the job is being done properly
(6) clarify any continuing sources of difficulty or misunderstanding.

OBJECTIVE 2: THE STUDENTS WILL DISCUSS THE DEVELOPMENT AND MAINTENANCE OF A FOLLOW-UP PROGRAM TO MEASURE THE PERFORMANCE OF EMPLOYEES WHO HAVE BEEN GIVEN MANAGERIAL RESPONSIBILITY.

Stimulus

1. Put up the flip chart sheets prepared before lesson. Each sheet has a statement on it as follows:

   a. 1st sheet: "George does not seem to do the job the way I would like, but I guess he knows what he's doing." (the owner talking).

   b. 2nd sheet: "I got Bob to help me out but he keeps running back to me with questions and suggestions. It's just as if I was still doing the job myself. Why doesn't he just do what I told him to do when I gave him the job? Can't he see I'm a busy man?" (the owner talking).

Clarify Problem

2. Have the participants discuss the above statements. The students should see that on the first sheet, the boss is almost afraid to say anything to George about the way George is doing the job. Therefore, the boss is not likely to have a very good idea of what is going on. On the second sheet, the boss is discouraging any questions or discussion about the job. He thinks that a simple explanation is all that is needed when an employee is given a job.

3. Emphasize that neither of these men has developed a proper follow-up procedure after delegating responsibility and authority. Try to phrase questions, if necessary, which will help the students recognize this point. Discuss.

Provide Information

4. Read Sections 4 and 5 of the Readings. Relate to the previous discussion.

4. How Do You Measure Employees' Performance?

Communication is important when delegating. If you want an employee to know what he is supposed to do, you will have to explain the job as clearly as possible. You will have to tell him how you would like the job done and then actually show him how to do it. You will have to answer any questions he may have and test his understanding by asking him questions.

Explaining, discussing and answering questions about the job are important when introducing an employee to new duties. However, these things are only a beginning; you will have to check to see how he is getting along. You may find that further explanation and discussion are necessary. Checking to see how an employee is handling new responsibility is called "follow-up".

As an employee becomes more familiar with his job you will be able to reduce the number of times you check (follow-up) on his progress. But remember, you must never delegate a job to anyone and then forget about it. Even after a person knows how to do his job well you should never drop your follow up program. You should continue to check from time to time. Only by knowing what is going on in all parts of your business will you be able to determine how well your business is doing. This is necessary if you wish to plan for any changes (expansion, stocking new products, getting a loan, etc.) in the future.

You must keep yourself informed at all times.

5. Summary

You may start out in business on a small scale where you can handle all the work yourself, but as the business grows, eventually you will be faced with the decision to delegate some of your responsibility to someone else. This lesson has shown you some of the ways you can do this, and how you can ensure that the jobs you delegate are performed properly.

Indicator

5. Show the film, "Breaking the Delegation Barrier." (30 minutes) This film will give the students an opportunity to tie together most of the material covered in this lesson. The discussion at various points during the film and at the end of the film should be directed toward relating the problems to a small business situation.

   a. Summary of Film Content
      The setting is the boss's office in a fairly large manufacturing business. The firm has just been awarded a large contract. The new contract, plus general expansion of the business, has resulted in the need for some re-organization of duties. One of the things that each of the four men will have to do is delegate responsibility and authority.

      The film deals specifically with the inability of people to delegate because of FEAR. The three types of fear that are discussed are:

      (1) Fear of working with people (as in Gordon's case).
      (2) Fear of making mistakes (as in Fisher's case).
      (3) Fear of losing authority (as in Pete's case).

   b. Suggested Film Discussion Guide

      (1) Start film and run to the scene where the boss says, "I can only hold so many functions in my hands at one time".

          Stop film and ask: "What does the boss mean when he says this? What can he do about this problem?" Discuss.

          NOTE: If necessary, point out that the boss has too much work to do because of the new contract. He will have to delegate some responsibility and authority to other people.

      (2) Start film and run to just after the boss finishes suggesting what any good manager must do when he delegates.

          Stop film and ask: "What are the three things that the boss suggests any good manager should do when he delegates?

          NOTE: The three suggestions made in the film are:

          (a) He must communicate - frequently in the beginning but less frequently as things begin to run smoothly.

(b) He must delegate but not abdicate - that is, he must not delegate a job and then forget about it.

(c) He must answer questions - although in the film, the men prefer to study the new situation for a short time before they ask questions.

You may have to replay the above sections of the film to ensure that the students get the three points.

(3) Start film and run to point where mention has been made of first barrier to delegation.

Stop film and ask: "What barrier to delegation has just been mentioned?" Discuss.

NOTE: Replay the section of film that mentions the first barrier to delegation - FEAR OF WORKING WITH PEOPLE if necessary. The important point here is that effective delegation is simply impossible if a person does not want to (or will not) work with other people.

(4) Start film and run to the point where the second barrier is mentioned.

Stop film and ask: "What is the second barrier to delegation that has just been mentioned?" Discuss.

NOTE: The second barrier that is mentioned is FEAR THAT MISTAKES WILL BE MADE. We must accept the fact that mistakes will be made but, with proper follow-up, the mistakes need not be serious.

(5) Start film and run to the point where the third barrier is mentioned.

Stop film and ask: "What is the third barrier to delegation that has just been mentioned?" Discuss.

NOTE: The third barrier that is mentioned is FEAR OF LOSS OF AUTHORITY. The owner-manager does not have to fear that anyone is going to take his job. What the owner-manager may have to fear is that an employee will exercise more authority than he has been given. This could present a problem in carrying out credit policy, for instance.

(6) Play film to the end. Review the three types of barriers to delegation that have been discussed in the film.

- fear of working with people
- fear of making mistakes
- fear of losing authority

These problems may not be as serious for the owner-manager of a business as for the manager of someone else's business. Nonetheless, they can be sources of concern.

Ask: "How did the boss overcome these problems in the film?" Discuss. "Would you do anything differently than he did if you were faced with the same problems?" Discuss.

SUBJECT PERSONNEL MANAGEMENT

LESSON PM10 GIVING WORKERS RESPONSIBILITY AND MEASURING THEIR PERFORMANCE

CASE PM10 - 1

A ONE MAN SHOW

Eric Nelson had certainly bettered himself. At one time he had been a small-scale fisherman, barely catching enough to keep his family alive.

Today he runs his own fish processing plant. He does not have to worry about starving anymore. In fact, last year he cleared $8,000.00 after paying all his employees.

Eric's wife likes the extra money her husband makes now that he has his own business, but she says she was happier when he was a fisherman. She gave these reasons for being unhappy.

"Eric works harder and longer hours now than he ever did when he was fishing. I hardly ever see him anymore. He's always down at the fish plant - doing this, checking on that ... I do not know why he doesn't let the workers look after some of those jobs.

For example, my husband insists on being at the plant every time a boat load of fish comes in or a truck load goes out, no matter what the time of day or night. He says he has to be sure the fish is weighed right and recorded correctly. Sometimes he even sleeps at the plant to be sure he is there to do these things.

I think the workers could do some of these jobs just as well as my husband can. The workers are there all night anyway. I don't know why he doesn't give them the responsibility of doing these tasks. He could give them the right to make some decisions for him. He shouldn't think that he has to decide everything himself, even if he is the boss.

I wish he wouldn't try to run a 'one man show'."

PM10

Questions for Discussion

1. As a manager, is Eric doing something wrong?
2. What do you think Eric's workers think of him as a boss?
3. What should Eric do to correct these problems?
4. Have you ever had a boss that was similar to Eric?

SUBJECT PERSONNEL MANAGEMENT

LESSON PM10 GIVING WORKERS RESPONSIBILITY AND MEASURING THEIR PERFORMANCE

EXERCISE PM10 - 1

TOO MANY JOBS TO DO

John Fisher is owner-manager of his own business. He started his business about seven years ago. At first it was just a small grocery store, but as business increased, he added such things as shoes and a few items of clothing. About four years ago he increased the size of his building a little. With more space he added some hardware items, such as hammers, nails, saws, tools, etc.

When John Fisher first opened his store, his wife helped him out as much as she could and John did the rest of the work himself. When he increased the size of his store, he hired a lady to help him serve customers, but he still did almost everything else himself.

Business had been increasing all the time and after studying the situation fairly carefully, he decided to double the size of his store as soon as possible. However, recently he found that even with the help of his clerk he just could not get everything done no matter how late he worked.

Here is a list of some things that must be done in running John's business:

1. Talking to salesmen and ordering stock.
2. Checking stock when it arrives.
3. Putting stock on the shelves.
4. Making sales.
5. Counting up cash at the end of the day.
6. Making out deposit slips and taking the deposit to the bank or credit union.
7. Making repairs, such as: repairing shelves and counters, changing lightbulbs, painting, etc.

8. Keeping records (including payroll).
9. Making out cheques to pay bills.
10. Arranging for loans.
11. Paying employees.
12. Granting credit to customers.
13. Deciding what prices to charge for all items in stock.
14. Training employees.
15. Delivery service.

Questions For Discussion

1. What do you think John Fisher should do about the fact that he can no longer do everything himself?

2. If he needs someone to help him out, what type of person should he hire?

3. Which jobs (from the list) should John Fisher continue to do himself, and which jobs would he assign or give to his helper? Why?

SUBJECT PERSONNEL MANAGEMENT

LESSON PM11 COMMUNICATING WITH EMPLOYEES

INSTRUCTOR'S GUIDE

OVERVIEW

In lesson MP11, "The Directing Function", we saw that directing means getting work done through people; that directing is concerned with getting employees to give the best effort possible. This lesson on communication with employees is the first of a series dealing with the very important topic of providing employees with proper direction in their work through a better understanding of the communication process.

Communication between the manager and his employees is vital to the success of the business. If there is lack of understanding between boss and workers, the business may operate inefficiently or even fail. On the other hand, if all people in the business have a shared understanding of the tasks to be done, there will be a higher probability of business success. Therefore, lessons dealing with some of the problems of employee-employer communications are important for the Small Business Management course.

There are problems, however, in teaching the concepts of communication. You cannot teach a person to communicate as easily as you might teach him to keep a set of records. Another difficulty is the lack of materials that relate to the running of small businesses.

The instructor should encourage each student to draw applications from the film and Readings material to his personal situation in running a small business.

PM11

OBJECTIVE

Students will discuss the importance of maintaining good two-way communication between the manager and his employees.

REFERENCE MATERIAL FOR INSTRUCTOR

1. Paines, I.I. "Better Communications in Small Business", Small Business Management, Series No. 7, Washington: Small Business Administration, 1962.
2. Sisk, Henry L. Principles of Management, Cincinnati: South-Western Publishing Company, 1969, pp. 416 - 441.

RESOURCES REQUIRED

1. Films
   - a. "The Communications Case Book" (8 minutes)
   - b. "The Trouble With Words" (15 minutes)
   - c. "Communications Feedback" (15 minutes)
   - d. "Overcoming Resistance to Change" (28 minutes)
2. Projectuals
   - a. PM11-1, "Two-Way Communication
   - b. PM11-2, "Steps in Giving Orders to Workers"
   - c. PM11-3, "Objectives of Communications"

METHODOLOGY

1. Hand out Readings and read Purpose and Introduction.

PURPOSE

In this lesson you will discuss the importance of maintaining effective two-way communication with your employees. You will also discuss some of the communication problems that you may have to deal with in your business.

INTRODUCTION

As owner-manager of your own business, you will be communicating with people, especially with your employees, all the time. It will be important to the smooth running of your business that misunderstandings, incorrect work and other problems that result from poor communications be avoided. Effective two-way communication with feedback can stop these problems before they arise.

OBJECTIVE: THE STUDENTS WILL DISCUSS THE IMPORTANCE OF MAINTAINING GOOD TWO-WAY COMMUNICATION BETWEEN THE MANAGER AND HIS EMPLOYEES.

Stimulus

2. Show Projectual PM11-1, "Two-Way Communication".

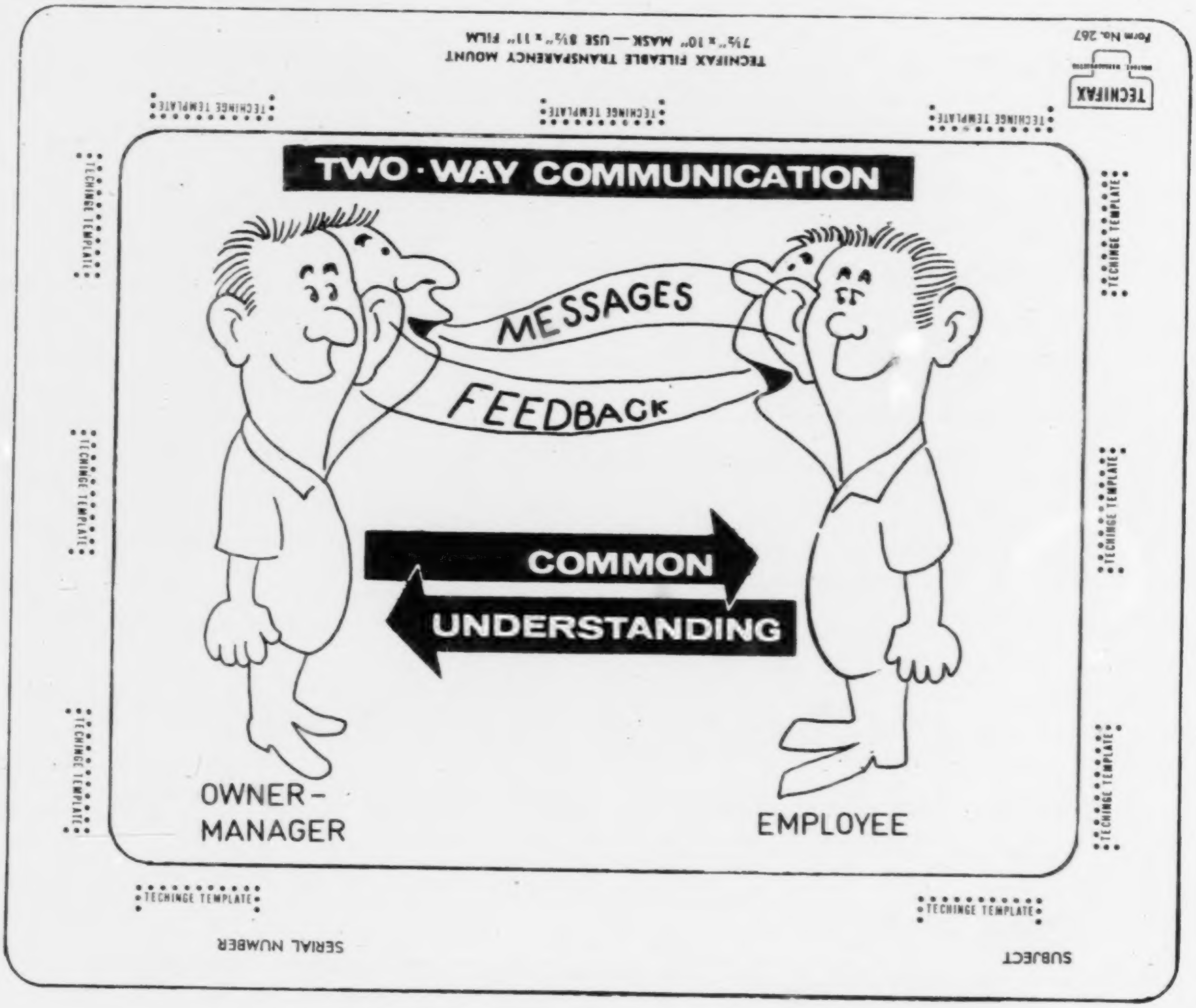
Clarify Problem

3. Discuss projectual. Ask students the following questions:
    a. "What does two-way communication mean?" List and discuss answers.
    b. "Why is it important for you to have good two-way communication between yourself and your employees?"
    c. "Have you worked in situations where there was poor communication?" Discuss.
    d. "What will you do to have good two-way communication in your business?" List answers. Discuss.
    e. "Was there good two-way communication during your business projects?" Discuss.

Provide Information

4. Read Sections 1 and 2 of the Readings. Ask students for examples from their experiences wherever possible. Show Projectual PM11-1, "Two-Way Communication" again while discussing these Readings.

PM11-1 TWO-WAY COMMUNICATION


TWO · WAY COMMUNICATION
MESSAGES
FEEDBACK
COMMON
UNDERSTANDING
OWNER-MANAGER
EMPLOYEE

CONTENT

1. What Does Two-Way Communication Mean?

Communication is the process of sharing information, that is, sending and receiving messages. People communicate by speaking, writing and body language (motions, gestures, facial expressions), and by listening, reading and writing.

YOU (sender) eg. speak	ONE - WAY → COMMUNICATION	YOUR EMPLOYEES (receivers) eg. listen

If the receivers (your workers) clearly understand the meaning that was intended by you, the sender of the message, then one-way communication has been real and effective. In two-way communication the messages, ideas and thoughts flow back and forth between the two parties.

YOU (sender & receiver) eg. speak and listen	TWO-WAY → ← COMMUNICATION	YOUR WORKERS (senders & receivers) eg. speak and listen

With two-way communication, understanding between you and your employees is easier and more effective.
For example: if you assign a new task to an employee without making sure he knows exactly what to do, and without giving him an opportunity to tell you whether or not he understands, then he may not complete the task correctly.

By encouraging your employees to communicate with you, and by listening to them, you can increase the probability that your business operations will run smoothly.

You can no doubt think of many other instances where the use of two-way communication is more effective than one-way communication. For example:

a. You and your wife can develop a common understanding of your business operations by exchanging ideas;

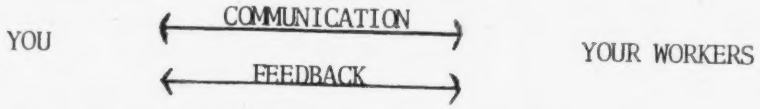
b. You can gain valuable ideas from your employees by asking for and listening to their suggestions.

Two-way communication often takes longer than one-way communication; it is much faster just to give your employees orders without asking for their ideas or opinions. However, the best way to get a clear understanding of the job to be done is for both parties to communicate freely with each other.

2. Listening for Feedback

When you communicate a message (a directive, order, idea, etc.) to your employees, you do so with a certain intention or purpose in mind. That is, you want them to react or behave in a certain way when they receive the message. However, what the employees actually do depends on the meaning they get from the message you sent. If you wish to know whether your message produced the results you wanted, you will have to listen to your employees' responses and look for the results of their work. This is part of the feedback process.

Feedback lets you know how your actions have affected other people; it is an essential part of effective two-way communication.



You need feedback to know if your employees understand and are following your orders and directives.

You must give feedback to your employees in order that they know when they are doing their jobs well.

5. Read Section 3 of the Readings.

3. Summary

As owner-manager of your own business, you will have to establish and maintain channels of two-way communication between yourself and your employees. You will have to use skills such as communicating clearly, listening carefully, checking for understanding and feedback to ensure that both you and your employees have a clear understanding of the tasks to be done.

6. The following four films will help the students realize the importance of employer-employee communications as a factor in the success of the business. The instructor may choose to omit the fourth film, "Overcoming Resistance to Change".

General Notes on Films

a. Introduce each film by describing the title and setting, and by giving a brief rundown on the content of the film. Remind students:

> "Even if a big business situation is shown, there are points in these films that can help you run your business."
>
> "Try to put yourself in the shoes of the person in the film. Ask yourself - How would I do things?"

b. Be sure to direct the discussion so that students relate film content to the Readings and to their past experiences. Emphasis should also be on their future role of business owner-managers, that is, ask them, "How would you solve this problem in your business?" How would you have handled the situation shown in the film?

c. Show and discuss projectuals where indicated. (If projectual does not summarize film content adequately, make use of flip chart. This may require replay of certain portions of the films several times.)

d. Instructors may want to play whole film through without stopping. Then play a second time making the indicated stops.

First Film: "The Communications Case Book" (8 minutes)

a. Setting: Different offices in a fairly large business.

b. Summary of Film Content (including Suggestions on How to Use);

(1) Film starts
Narrator mentions: "Communication is always a two-way process - something that goes on between people rather than just from one person to another. But profitable exchange can only take place when both participants are interested, receptive, etc., of what is being said."

(2) STOP here - show Projectual PM11-1, "Two-Way Communication" again and then read above quote to students. Discuss. Point out that there has to be back and forth (two-way) not just from one person to another (one-way) communication if a common understanding between two people is to be achieved.

(3) Introduce Case I. Tell students: "We will now look at a case where the boss does not listen to his foremen, that is, the boss tunes out his mind."

CASE I, "The Case of the Tuned Out Mind"
Shows boss, sitting in his office. One of his foremen comes in to explain a problem. Boss stops his work to listen to foreman - but he does not really listen - he writes a grocery list instead. Foreman gets mad because boss did not listen to what he said. The boss does not even realize that he was not listening.

(4) STOP and discuss. Ask: "Will you pay attention when your workers talk to you?" Point out: "This case illustrates that both the sender and the receiver must be listening to the message that is being sent. This points out that communication must be two-way if people are to understand each other."

(5) Introduce Case II. Tell students: "The next case shows that you have to treat each person as an individual when communicating with them. Each person may respond (act) differently."

CASE II, "The Case of the Wrong Wave Length"
Narrator points out: "The raw materials of communication are: messages you want to communicate, and the people to whom you want to communicate. No two people respond to a message in the same way. The boss must take the individual differences of people into account."

Film shows a situation of a boss giving the same job instructions to two different foremen. Each foreman reacts differently.

(6) STOP and discuss. Ask: "Will you have to treat each employee differently? What if your wife or children work for you?" Replay this case if needed.

(7) Introduce Case III. Tell students: "This case shows how a person's emotions interfere with his communication. A foreman is mad so he barks orders to the workers.

CASE III, "The Case of the Chain Reaction"
Narrator points out: "You give an order because you want to get something done. But the people who have to carry the order out have many other wants and the way an order or any other communication is transmitted down the line can set up a chain reaction with important immediate and long-term results.

Film shows a situation where a foreman comes to work and finds a RUSH order on his desk. This order is a new set of specifications. The foreman rushes into the boss's office to complain. Boss is too busy to talk to him.

The foreman (still angry) goes to tell his workers that the specifications have been changed. The foreman's emotions show (that is, he is still angry) when he tells the workers that the specifications have been changed. This rubs off on the workers as they get angry too.

(8) STOP and discuss. Ask: "What should the boss have done when the foreman came into his office?" "Who is to blame, the boss or the foreman?"

Re-show this portion of the film if necessary. Point out: "A person's emotions cloud his communications".

(9) Introduce Case IV. Tell students: "This case shows that a person's attitude or feelings (anger) shows even if he does not say anything.

CASE IV, "The Case of the Silent Yell"
Narrator mentions: "In every contact with another person you communicate your attitude as well as the facts. This type of unspoken communication can be decisive in the success you achieve".

Film shows a situation where a foreman finds out that production records were recorded incorrectly by secretary. He gets mad. He realizes he should not bawl her out in front of other workers so he calls her into his office. But before he can scold her the girl starts to cry.

(10) STOP and discuss. Ask: (a) "Why did the girl break down and cry even if the boss did not say anything to her?" Point out that people can communicate without saying anything (non-spoken communication). You can tell how another person feels by looking at him - the way his face looks, the way he moves around, etc. (b) "How would you have handled the situation if you were the boss?"

Second Film: "The Trouble With Words" (15 minutes)

a. Setting: A big business production plant. Film shows experiences of Joe, a foreman, on his first day as a foreman. Ask students to put themselves in Joe's shoes.

b. Summary of Film Content (including Suggestions on How to Use):

(1) Film starts - shows Joe on his first day as a foreman. There has been a problem with a machine. Joe tells a worker to fix it. The worker takes apart the wrong machine. Joe gets mad at the worker.

(2) STOP and discuss. Ask: "What did Joe do wrong?" Replay film if necessary.

(3) After this incident a voice talks to Joe. Voice tells him it was his fault that the worker took apart the wrong machine and points out where he went wrong. The voice proceeds to tell Joe how to give orders (that is, how to communicate instructions). The film refers back to above incident with the machine while the following is discussed. Voice points out how Joe should give orders to his men.

Voice suggests "you have to get workers" attention, that is, you have to switch people on before you can give them orders". This may be done by asking workers a question (to get him thinking on the right track). Then there are five steps in giving work orders to workers:

(a) tell them WHAT to do.
(b) tell them HOW to do it.
(c) tell them WHERE to do it.
(d) tell them WHEN to do it.
(e) tell them WHY you want them to do it.

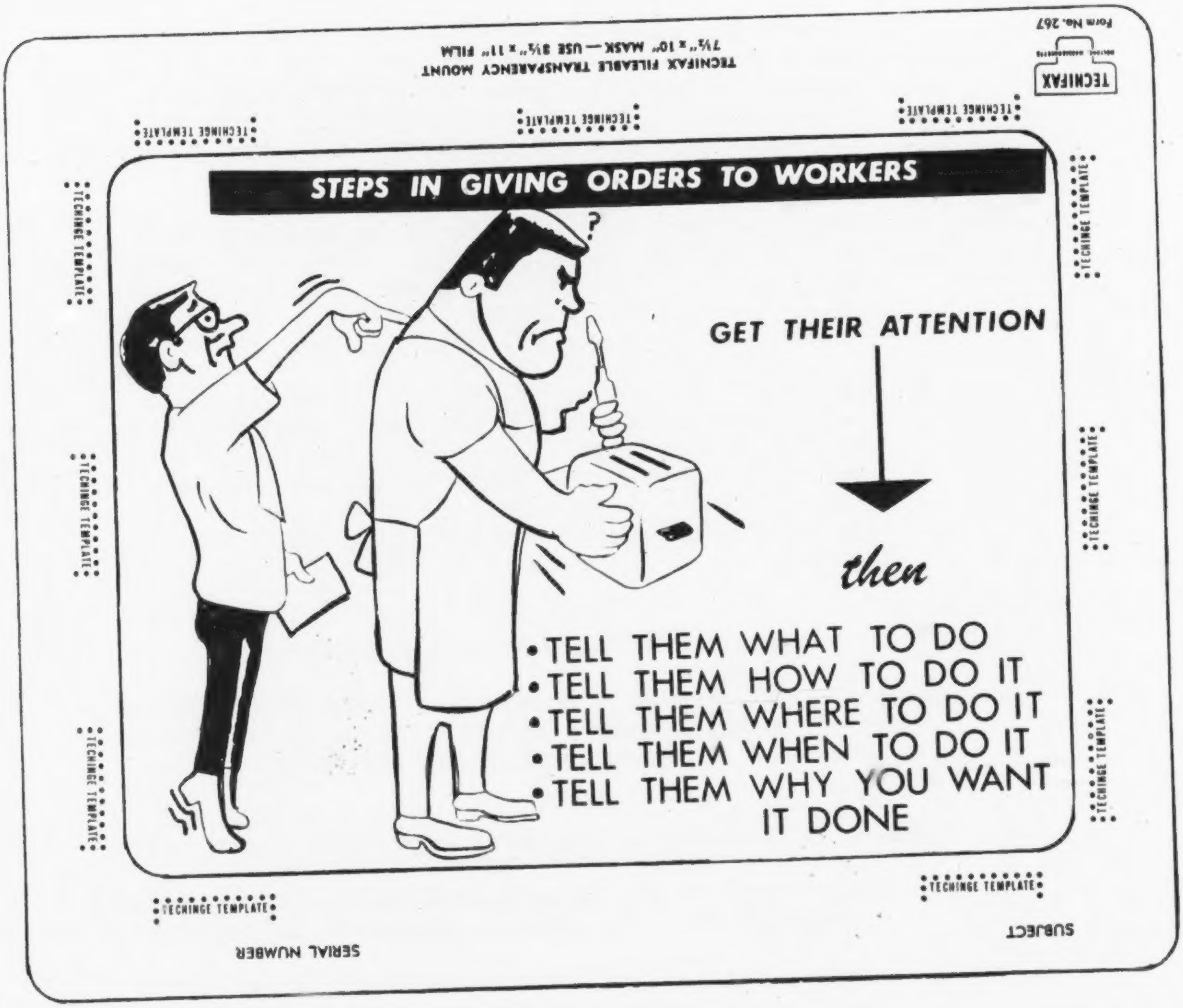
Film points out: "This holds for any situation - whenever human beings are trying to get messages to each other."

(4) STOP and discuss. Show Projectual PM11-2, "Steps in Giving Orders to Workers". Ask: "Do you think this is a good way to give instructions (orders)?"

(5) Film then shows Joe trying to put these principles into practice. Joe tells worker about a job he needs done - making sample products. The worker makes the wrong kind of samples. Joe's boss discovers this error and gives Joe hell.

Joe is upset. He cannot figure out why his instructions fail. Voice comes in again and points out to Joe that he forgot to put himself in the worker's shoes. Voice tells Joe he forgot to ask worker if instructions were clear. That is, it is not enough for the boss to have things clear in his own mind but the boss has to be sure the worker understands things the same way the boss does.

PM11-2 STEPS IN GIVING ORDERS TO WORKERS



STEPS IN GIVING ORDERS TO WORKERS

GET THEIR ATTENTION

then

- TELL THEM WHAT TO DO
- TELL THEM HOW TO DO IT
- TELL THEM WHERE TO DO IT
- TELL THEM WHEN TO DO IT
- TELL THEM WHY YOU WANT IT DONE

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Voice tells Joe he should repeat the important parts of his instructions more than once. He should ask the worker to repeat the what, how, where, when and why of what he is supposed to do.

(6) STOP and discuss. Refer to Projectual PM11-2 again. Ask: "Do you think it is important to ask your employees to repeat your instructions in their own words?" Replay above portion of film if necessary.

(7) Film shows a flashback to Joe's home. Shows where Joe made a mistake while doing the washing for his wife because his wife did not make sure he understood her instructions. His wife did not mention the important thing more than once and she did not check back to see if Joe got it right.

Film then shows a situation where Joe once more tries to apply the five steps of giving orders. Joe does it correctly this time. Film ends when Joe's boss gives Joe instructions. Joe corrects his boss. He asks him to carefully spell out the what, how, when, etc.

(8) Discuss. Ask: "Is it possible for you to put these steps into practice in your business?" Replay portions of film if necessary. Also refer to Projectual PM11-2 during this discussion. Ask: "Is two-way communication needed in order for instructions to be clear?" Refer back to lesson Readings and Projectual PM11-1 if necessary.

Third Film: "Communication Feedback" (15 minutes)

a. Setting: Professor Berlo is narrator. Shows communication situations in big business; however, situations and theory can be related to students' backgrounds and futures as owner-managers.

b. Summary of Film Content (including Suggestions On How to Use)

(1) Film starts by showing mechanical and machine-to-machine communications. For example, thermostat and computers.

Shows details of how a thermostat controls the furnace, hence the temperature in the room. Explains that feedback means getting knowledge of results or, in other words, seeing responses of others that will let us know how well we (our communications) are doing. Mentions that managers need to get feedback from workers. Feedback should not be ignored.

Film then points out the OBJECTIVES of communication. That is, when we communicate:

(a) We want to get ATTENTION;
(b) We want UNDERSTANDING of what is expected and what needs to be known;
(c) We want ACCEPTANCE of ourselves and our ideas; and
(d) We want ACTION.

(2) STOP and discuss. Show Projectual PM11-3, "Objectives of Communication". Relate back to Sections 1 and 2 of Readings and to course teaching situation; that is, ask: "Does the instructor get attention, understanding, acceptance and action from the students?"

(3) Film then shows examples where these objectives of communication are not accomplished. Instructor may want to stop and discuss each of these examples:

(a) Manager is holding a meeting. Manager just talks away even though he does not have people's ATTENTION.

The manager ignores FEEDBACK. The moral is,if you do not have people's attention then you are not communicating.

(b) Boss is telling a girl what to do. The girl says, "I understand" but she really does not understand.

Moral - you must have UNDERSTANDING when you communicate.

(c) Girl is talking on phone. She does not ACCEPT what the other person is saying.

Moral - your communications must be accepted.

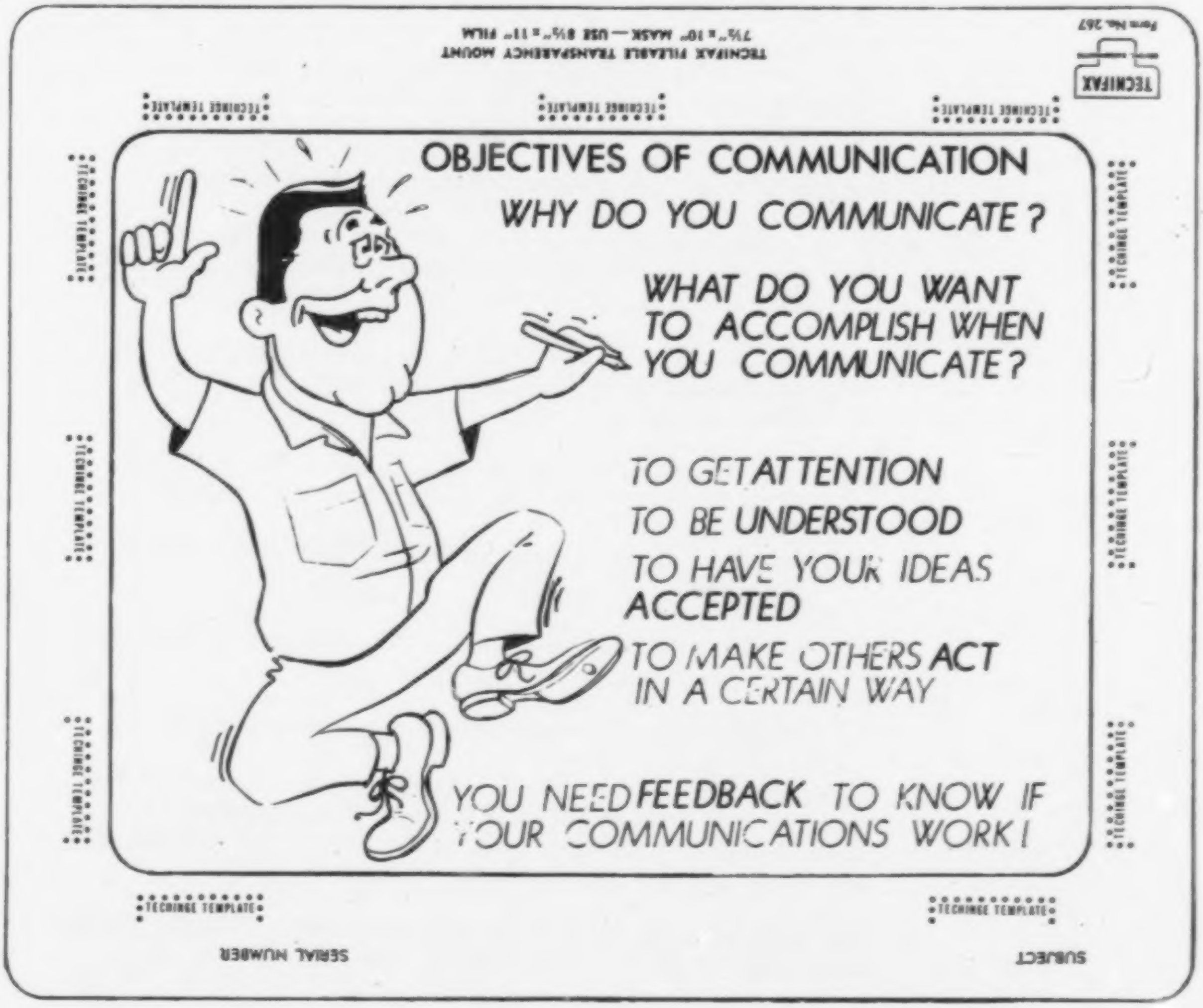
(4) Narrator sums up the above situations as follows: "The manager must use FEEDBACK from people's responses to what he says." He also points out that: "For those who are sensitive to it, feedback is easy to get".

The film goes on to discuss the question: "Why is feedback easy to get?" The answers are:

(a) Everything a person says tells you something about him (if you are sensitive to feedback).

STOP and discuss this point. Relate to group's "reading" of instructor.

PM11-3 OBJECTIVES OF COMMUNICATIONS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OBJECTIVES OF COMMUNICATION

WHY DO YOU COMMUNICATE?

WHAT DO YOU WANT TO ACCOMPLISH WHEN YOU COMMUNICATE?

TO GET ***ATTENTION***

TO BE ***UNDERSTOOD***

TO HAVE YOUR IDEAS ***ACCEPTED***

TO MAKE OTHERS ***ACT*** *IN A CERTAIN WAY*

YOU NEED ***FEEDBACK*** *TO KNOW IF YOUR COMMUNICATIONS WORK!*

(b) Everything a person does, all his reactions, are potentially useful. The manager can make use of everything he knows about his men (inside and outside the business).

STOP and discuss this point. Relate to idea of unspoken or non-verbal communication mentioned in Case IV of Communications Case Book film. Also relate to the employing of relatives. That is, ask: "Is it easier to communicate with people you know well? Why?" Film continues and points out "some people come right out and tell us they are not paying attention or that they do not understand, but in many cases we have to look behind what they are saying to see what they really mean." We can find out what they really mean by noticing such non-verbal (unspoken) communications as:

- posture (how he stands or sits)
- gesture (body movements, hands and arms)
- tone of voice
- hesitation in responses
- the lifted eyebrow (facial expressions).

Of course people often mean different things from what they say and two people have different meanings from the same statement.

STOP and discuss. Ask: "Do you agree that unspoken communications can help to tell you what people really mean or what they really think?

(c) Third reason why feedback is easy to get is: "most of us are desperate to get someone to listen to us but nobody listens". Film shows an example - a worker gives personal problems as reason for being behind in his work. His boss does not listen.

STOP and discuss. Ask: "Why did the boss not listen to the worker's personal problems?" Replay this portion of film if necessary.

(5) Narrator sums up this section of film by mentioning: "Feedback is so important to our success and it is so easy to obtain; why do we not make better use of it? and why do we ignore and distort feedback?

Film then suggests reasons why feedback is ignored: Instructor should stop and discuss each reason.)

(a) "Managers do not understand communication. They should think of communication as something more than messages."

Film shows a situation of a chairman who must get everything covered in one meeting. The meeting runs over the time limit. The chairman ignores the feelings of others in the meeting. He does not listen to what people say. He is insensitive to unspoken communications.

Moral - there can be lots of messages but little communication.

STOP and discuss. Ask: "Is the chairman ignoring feedback?"

(b) Second reason for ignoring feedback is: "We are unaware that we are in the business of affecting people, that is, we think communications involves passing messages back and forth and we do not have to consider the consequences."

Stop and discuss. Ask: "Does everything you communicate to your workers affect them in some way?"

(c) Third reason for ignoring feedback is: "We are too wrapped up in ourselves, that is, we listen to ourselves carefully but ignore the responses of others."

STOP and discuss. Relate to behaviour of students in their own group. Ask: "Are you sometimes too wrapped up in yourself to listen?"

Film then shows a situation to illustrate the above point - boss asks for suggestions from workers. One worker gives his recommendation. Another worker starts to give his but boss interrupts and asks him to summarize what the first worker said before he proceeds. This second worker cannot summarize because he was not listening. He was too wrapped up in himself.

(d) Fourth reason for ignoring feedback is: "We do not want to know something that will cause us trouble."

Film shows a situation where a worker misreads feedback because he is insecure.

STOP and discuss this fourth point.

(e) Fifth reason for ignoring feedback is: "We are poor observers, that is, we do not read the reactions of others".

STOP and discuss. Ask: "Will you have to learn how to read your workers?"

(6) Narrator then sums up the five reasons why people do not use feedback. He mentions: "To get feedback, we must train ourselves to observe the reactions of others. We must get away from the above five handicaps. Remember - everything that people say and do tells us something about them. --- To change people's behaviour we must use feedback. --- The effective manager has to learn how to read people.

(7) Discuss last line of film. Ask: "Can you read people? Is it easier to read relatives than others?" Show parts of film over again if necessary, or if students wish a rerun.

Fourth Film: "Overcoming Resistance to Change" (28 minutes)

NOTE: This film is optional. The instructor should decide whether his group will benefit from it.

a. Summary of Film Content

(1) Film shows that often people do not welcome change, even if it is for the better. It shows how workers resist the introduction of new equipment. The problem is not in the equipment but in the workers.

(2) Mention: "The key to overcoming resistance to change is in seeing things from the workers' point of view; that is, seeing what the change means to the workers.

(a) workers want to know the who, what, where and how of change;

(b) supervisor should consult workers about change;

(c) the workers' self-image may be threatened by the boss's attitude toward change;

(d) the boss must see how change affects a person in terms of his work group;

(e) workers may see change as just adding new problems.

(3) To overcome resistance to change, the manager should:

(a) communicate to the workers before the change takes place;

(b) give the workers an opportunity to express their opinions;

(c) involve the workers in the change - make them feel that they have an important part to play in the success or failure of the change;

(d) accept the workers suggestions and consider them carefully.

(4) A supervisor cannot prevent or overcome resistance to change unless he sees it from the worker's point of view. Effective two-way communication is needed for change to go smoothly. Change cannot be imposed; it will be accepted only when it is not threatening.

Indicator

6. Students will write a report, to be handed in the following day, outlining the importance of two-way communication between employer and employee. The report should also mention the ways in which a manager can encourage two-way communication.

SUBJECT PERSONNEL MANAGEMENT

LESSON PM12 BE A GOOD LISTENER

INSTRUCTOR'S GUIDE

OVERVIEW

Listening is one of the most important, most difficult, and most neglected skills in communication. It has been shown that most businessmen spend almost as much time listening as they do in writing, reading and speaking combined.

Active listening demands concentration, not only on the spoken words of another person, but on the unspoken words that may be far more important.

This lesson has implications for every area of business life: dealing with customers, employees, suppliers, bankers, etc. Also it has implications for the group situation in which the students find themselves. That is, do they listen to the instructor? Do they listen to their fellow students?

OBJECTIVE

The student will be made aware that the ability to listen is one of the most important communication skills.

RESOURCES REQUIRED

1. Projectuals: PM12-1, "Are You Listening? Why Not?"
PM12-2, "These Things Cause Poor Listening"
PM12-3, "Good Listening is Good Selling"

2. Films: "Person to Person Communication" (14 minutes)
"Are You Listening?" (12 minutes).

METHODOLOGY

1. Hand out Readings and read Purpose and Introduction.

PURPOSE

This lesson will emphasize the importance of listening in effective communication. The ability to listen carefully and completely is one of the most important and one of the most neglected communication skills.

INTRODUCTION

Most of us are better speakers than we are listeners. A businessman must be a good listener; he must be ready to listen carefully to his workers, customers, suppliers and other people in the community.

It is hard for two-way communication to take place unless each person is a good listener. Careful listening cuts down on mistakes and misunderstandings.

OBJECTIVE: THE STUDENT WILL BE MADE AWARE THAT THE ABILITY TO LISTEN IS ONE OF THE MOST IMPORTANT COMMUNICATION SKILLS.

Stimulus

2. Show the film, "Are You Listening", without stopping for a detailed analysis of the situations shown.

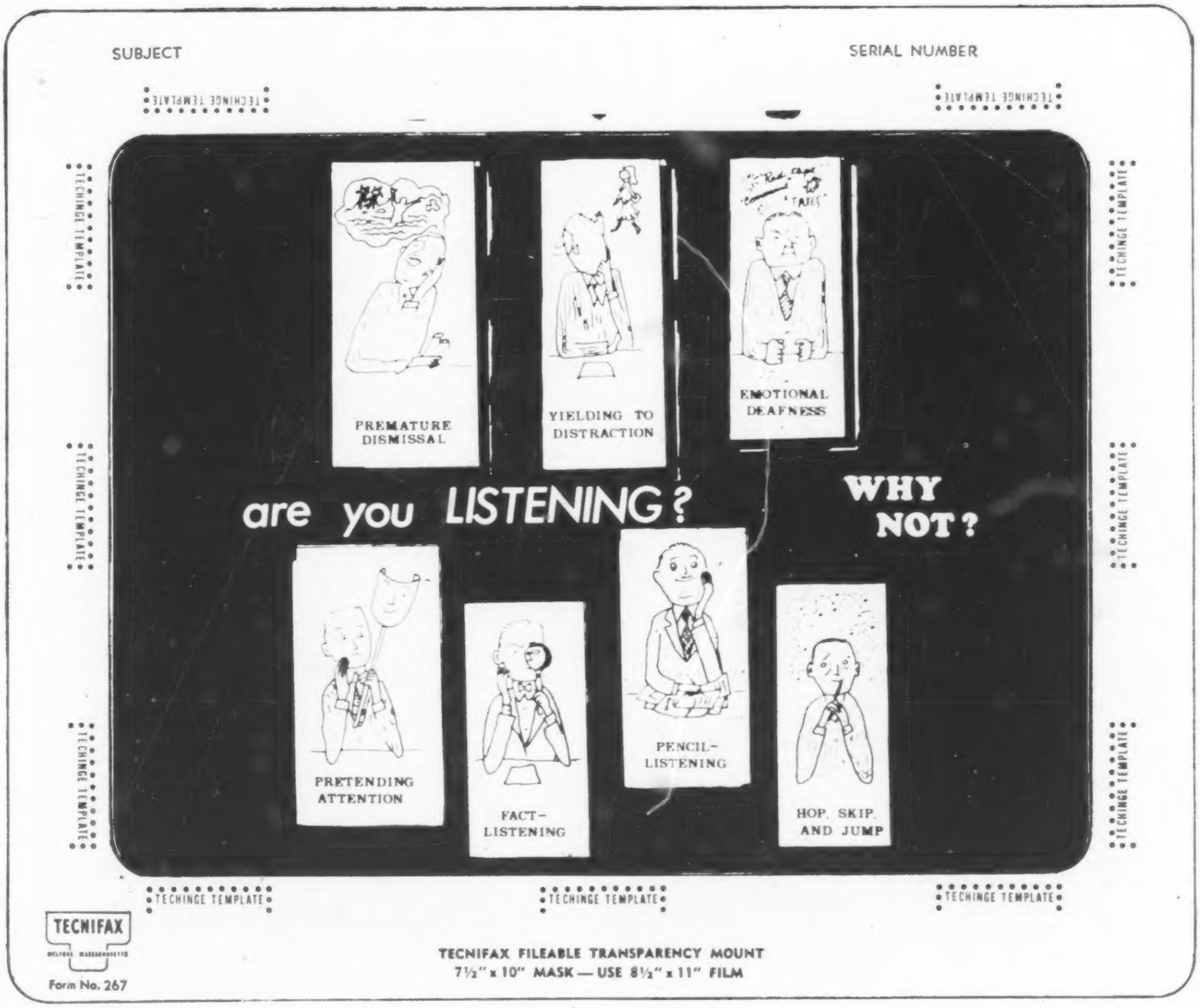
Discuss the film and ask students to suggest what they think causes poor listening in this group. List these suggestions on the flip chart.

Clarify Problem

3. Show the Projectual PM12-1, "Are You Listening? Why Not?". Let the students explain, in their own words, what each of the pictures

PM12

PM12-1 ARE YOU LISTENING? WHY NOT?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PREMATURE DISMISSAL
YIELDING TO DISTRACTION
EMOTIONAL DEAFNESS
are you LISTENING?
WHY NOT?
PRETENDING ATTENTION
FACT-LISTENING
PENCIL-LISTENING
HOP, SKIP, AND JUMP
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means and/or relate each picture to one of their suggestions listed on the flip chart.

Provide Information

4. Read Sections 1 and 2 of the Readings. Show Projectual PM12-2 as Section 2 is being read.

CONTENT

1. What Makes You A Good Listener?

   a. Do Not Prejudge (be biased toward) the Other Person
   If you think a person is stupid or dumb, you will not even try to listen to and understand his point of view.

   b. Listen to the Full Story
   Be sure you do not cut the other person off before he has said what he wants to say. Do everything you can to put the other person at ease.

   c. Try To See Things From the Other Person's Point of View
   Put yourself in his shoes. Try to pinpoint the feelings behind his words.

   d. Question the Other Person Carefully
   Keep the conversation going by asking questions such as "and then what happened?" or "what did you do?"

   e. Do Not Argue Stupidly
   Do not say "that is not true" or "I do not believe you". These statements will put the other person on the defensive (get his back up) thus making it impossible for him to say what he wants to say.

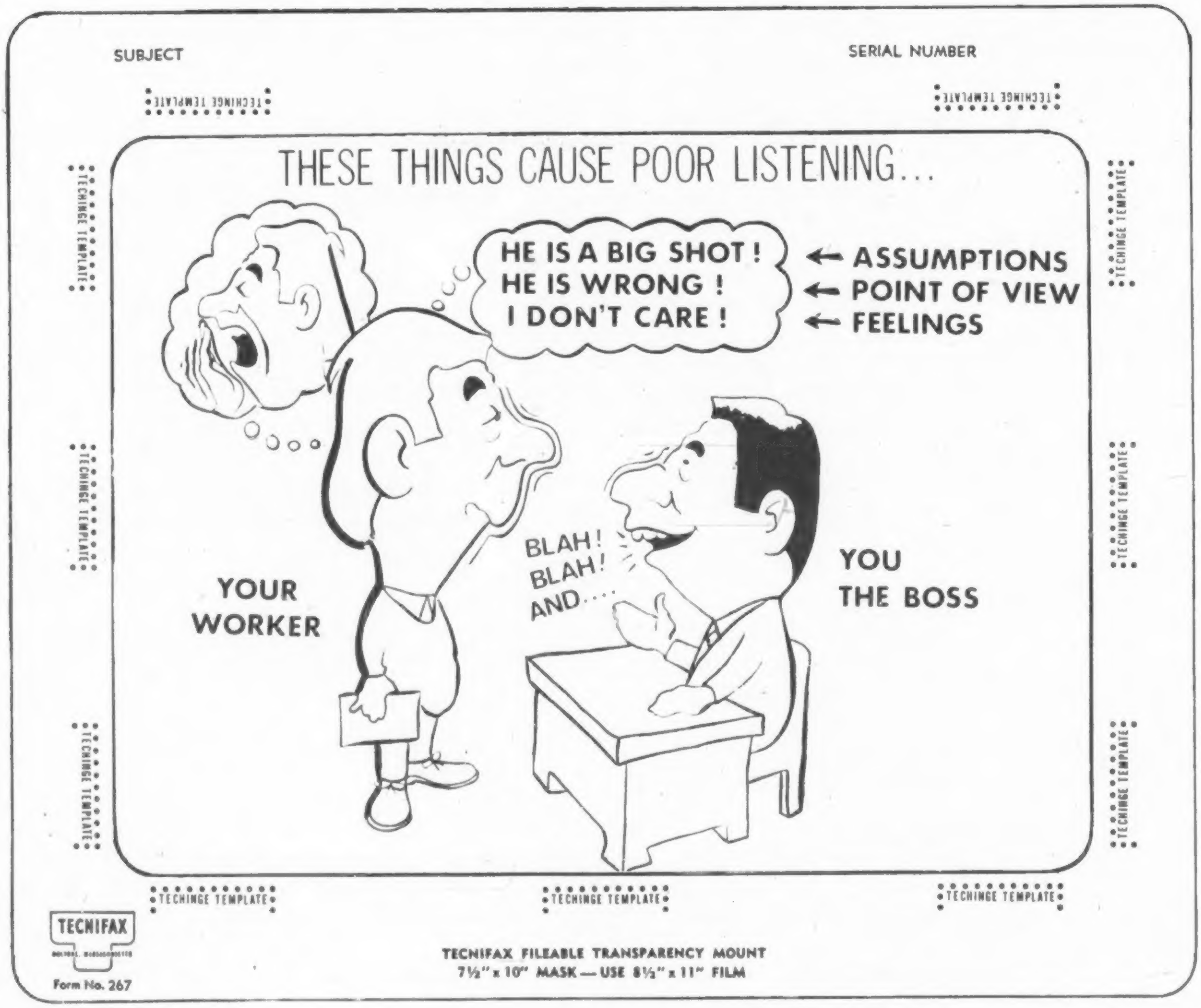
2. What Are Some Poor Listening Habits?

   a. Prejudging
   Deciding in advance that the other person will be uninteresting, dull, or a waste of time to listen to.

   b. Pretending Attention
   Many people pretend to listen while thinking of something else.

PM12

PM12-2 THESE THINGS CAUSE POOR LISTENING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THESE THINGS CAUSE POOR LISTENING...
HE IS A BIG SHOT! HE IS WRONG! I DON'T CARE!
← ASSUMPTIONS
← POINT OF VIEW
← FEELINGS
BLAH! BLAH! AND....
YOUR WORKER
YOU THE BOSS
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c. Yielding to Distractions
There are always things that distract our attention when we are trying to listen to a person.

d. Pencil and Paper Listening
Sometimes we try to take down too many notes and thus do not hear what is being said.

e. Emotional Deafness
Certain words like communist, sex, etc., may affect our feelings. We let these words bother us so much that we do not really listen to what is going on.

f. Blocking Out What We Do Not Want to Hear
Most of us do not listen as well to things that go against our ideas as we do to those things that agree with our ideas. That is, "we hear what we want to hear" and block out the rest.

g. Listening for Facts Only
Facts alone may not mean anything. We have to listen to the entire message.

5. Show the film, "Are You Listening?", again; this time, stop after each of the following scenes to relate it to the Readings. Ask the students to suggest what listening problems apply to each situation and, if possible, to give some real life experiences they have had.

a. Situation 1
Supervisor overhears employees running down the management of the company. He blocks out information when he talks to the boss on the telephone.

Stop and ask: "What did the supervisor do wrong?" Relate to Readings Section 2, f.

b. Situation 2
Staff meeting. Shows a situation of a person leading a staff meeting. He asks for ideas then destroys participation by cutting people off before they have finished talking.

Stop and ask: "Have you ever seen this happen? If so, where?" Relate to Readings Section 1, b.

c. Situation 3
Employee evaluation interview. Shows a situation where neither person is listening to the other.

Stop and ask: "How would you do an evaluation interview?"

(1) The boss has prejudged the other person. Relate to Readings Section 2, a.

(2) The boss has yielded to distractions (telephone). Relate to Readings Section 2, c.

d. Situation 4

Exit interview. Shows a situation where a person is being interviewed after having quit his job. The lady interviewing him shows a number of poor listening habits.

(1) Listening for facts only. Relate to Readings Section 2, g.

(2) Not listening to the full story (cutting people off). Relate to Readings Section 1, b.

(3) Not trying to see things from the employees point of view. Relate to Readings Section 1, c.

(4) Not questioning the other person carefully. Relate to Readings Section 1, d.

e. Situation 5

A confused elderly man is trying desperately to get some information and reassurance from an inconsiderate ticket clerk.

(1) He is pretending attention to the old man. Relate to Readings Section 2, b.

(2) He had decided in advance that the old man will not be interesting. Relate to Readings Section 2, a.

6. Read Section 3 of the Readings.

3. How Can You Be A Good Listener?

Good listening is important to your success as an owner-manager. The following are some points to remember on good listening.

a. Stop talking.

b. Make sure that you can hear what is said, and that others can hear you.

c. Face the speaker so you can see him as well as hear him. His facial expressions will help you to understand what he says.

d. Listen for the main ideas in what is said. Look for his point of view. Be patient. Do not argue.

e. Try to allow for the speaker's feelings at the time. Put yourself in his place.

f. Know your own feelings and try to allow for them before reaching any decision.

g. Get his whole story before interrupting him.

h. Ask questions. Check understandings and clear up any misunderstandings.

i. If you disagree with him, be sure he understands clearly what the disagreement is about.

7. Show Projectual PM12-3, "Good Listening is Good Selling". Discuss.

8. Show the film, "Person to Person Communications".

The film setting is the boss's office.

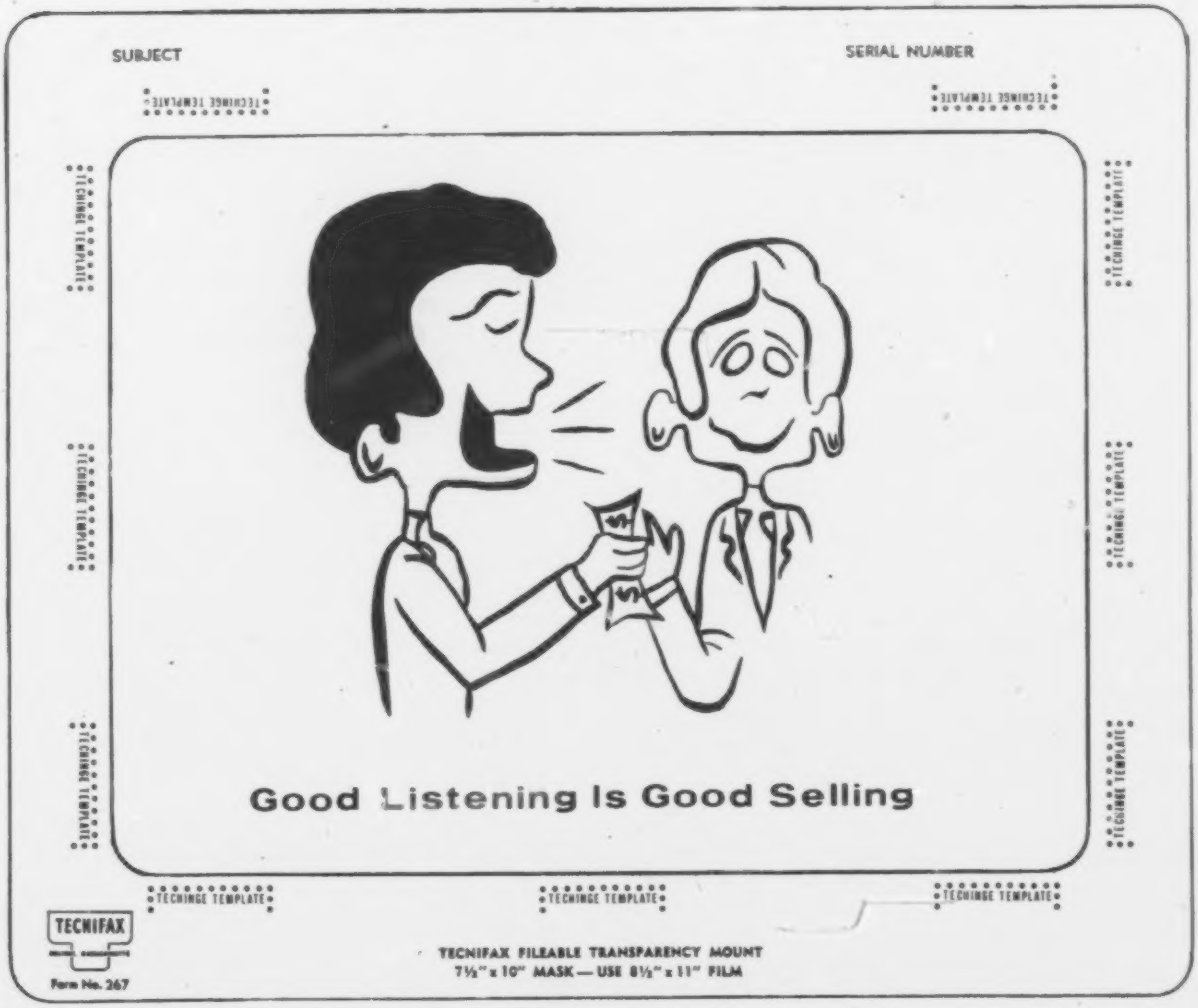
a. First Scene
Shows what happens when the boss and worker are not listening to each other.
The worker asks the boss for a week off. The boss is not listening. He refuses to give the worker time off. Worker is not listening either. So he quits the job. The boss loses a good worker and has to hire and train a new man.

Stop and discuss what each person was doing wrong.

b. Second Scene
The narrator goes back and looks at what actually happened between the boss and the worker.
The narrator emphasizes the three questions that the boss and the worker should be asking themselves while listening to each other:

(1) What assumptions are we making?
(2) What are our points of view?
(3) What feelings are affecting our thinking?

PM12-3 GOOD LISTENING IS GOOD SELLING


SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
Good Listening Is Good Selling
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

c. Third Scene
Shows how different the same situation is when the boss and worker listen with understanding to each other.
The worker gets some time off and the boss is able to get the work done while he is away.

d. End
The narrator sums up film: "Listening is more than just hearing words. You have to listen with understanding."

Stop and discuss film. Refer again to Projectual PM12-2. Replay portions of the film, if necessary.

9. Read Section 4 of the Readings.

4. Summary

Effective communication assumes that two-way communication exists between the two parties, and that both are careful listeners. Very often real communication cannot exist because someone is not listening. This lesson should encourage you to sharpen your listening skills.

Indicator

10. Ask students to gather in groups of four or five. Ask them to list the most common bad listening habits they have noticed in each other. Have them suggest methods of correcting each one.

11. Have each small group share their ideas with the whole group. List on the flip chart. Which ones are most common to the whole group.

SUBJECT PERSONNEL MANAGEMENT

LESSON PM13 ROADBLOCKS TO COMMUNICATION

INSTRUCTOR'S GUIDE

OVERVIEW

This lesson introduces the students to the ROADBLOCKS, BARRIERS, BREAKDOWNS OR FILTERS, which prevent good two-way communications.

The owner-manager of a business cannot avoid communicating with people: customers, employees, suppliers, financial institutions (banks, credit unions, government agencies, etc.), government departments (taxation branch, unemployment insurance commission, etc.) In fact, not only is communication unavoidable, it is vital to the successful operation of any business.

Communication is obviously important when dealing with personnel. An owner-manager must communicate with his employees. Ideally, there should be complete understanding by both the employer and the employees at all time during the communication process. This ideal is rarely achieved. Most communication is poor because of the many roadblocks that serve to prevent the complete understanding people hope to achieve.

Having established that roadblocks do indeed interfere with the communication process, the lesson points out some of the more common types of barriers that the students will encounter. Finally, some of the steps that the students themselves can take to ensure that these roadblocks are reduced or eliminated are discussed.

The instructor should impress upon the students that they, as managers or owner-managers of their own businesses, must assume a large measure of responsibility for good communication. If they do everything they can to reduce communications roadblocks, their efforts will serve as an example to their employees and others with whom they come in contact. This approach will not guarantee the elimination of roadblocks, but it will at least encourage people to respond in a similar manner.

NOTE: The instructor should be prepared for the suggestion that he is not communicating effectively; that he is guilty of some of the roadblocks pointed out in the lesson.

OBJECTIVES

1. The students will become aware of some factors that cause breakdown in communications.
2. The students will become aware of some of the steps they can take to reduce, remove or overcome barriers to communication.

RESOURCES REQUIRED

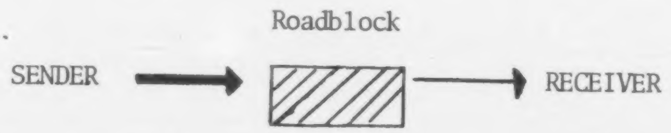
1. Projectual BC2-1, "The Communication Process". (Previously used with lesson BC2, "Communicating in Business".)
2. Projectual PM13-1, "The Six-Headed Communication Blocker"
3. Flip chart
4. Film, "Roadblocks to Communication" (30 minutes).

METHODOLOGY

1. Hand out the Readings and read the Purpose and Introduction. Show Projectual BC2-1, "The Communication Process", at the same time.

PURPOSE

This lesson looks at the filters or roadblocks that come between the sender and the receiver of messages. These roadblocks interfere with communication among people and cause what is referred to as a "breakdown" in communications.



You will consider ways in which these roadblocks or barriers may be overcome.

INTRODUCTION

One of the things you will have to do as manager or owner-manager of a business is deal with people. You will find that you must develop and maintain good two-way communications with customers, suppliers, employees, etc. However, you will find that many things interfere with the two-way process of communication and prevent people from understanding each other. These things are called ROADBLOCKS, BARRIERS or FILTERS to communication. You must know what these roadblocks are if you hope to reduce or overcome them.

OBJECTIVE 1: THE STUDENTS WILL BECOME AWARE OF SOME FACTORS THAT CAUSE BREAKDOWN IN COMMUNICATION.

Stimulus

2. Have one of the students write, "Roadblocks to Communication" at the top of the flip chart. Ask the students to brainstorm a list of things that they think are roadblocks or barriers to communication.

Clarify Problem

3. Discuss the suggestions made by the students.

4. Show Projectual PM13-1, "The Six-Headed Communication Blocker". Point out that the projectual shows only a small number of the factors that can cause communications to falter or break down. Also point out that some of these roadblocks or barriers overlap. For example, if you distrust the sender of a message, you will not likely believe what he has to say. So, in effect, you will be hearing only what you want to hear. Thus two roadblocks have occurred together -- one is the result of the other. Additional examples of this same sort may be suggested by the group or the instructor. Discuss as necessary.

Provide Information

5. Read Section 1 of the Readings. Compare the points suggested in the Readings with the list on the flip chart. Discuss.

CONTENT

1. Roadblocks That Cause Communication Breakdown

In the last three lessons you have discussed the importance of establishing and maintaining effective two-way communication with your employees. You have learned that careful listening helps to reduce misunderstanding in communication. In fact, poor listening habits contribute largely to the failure or breakdown of communication.

Other roadblocks to clear understanding and effective communication are:

a. People often hear only what they want to hear.
If you are talking with someone who ignores what you are saying because he has strong opinions of his own, the communication process breaks down. That is, the other person will listen only to those things which agree with his own opinions.

b. Lack of knowledge.
Sometimes a person does not know (or, you think he does not know) too much about the subject he is discussing. If this is the case, you are not likely to pay much, if any, attention to what he is saying.

c. Distortion.
Sometimes people distort (or change) the intended meaning of a message that you send to them. They may do this on purpose, or they may do it unknowingly because they do not understand your message.

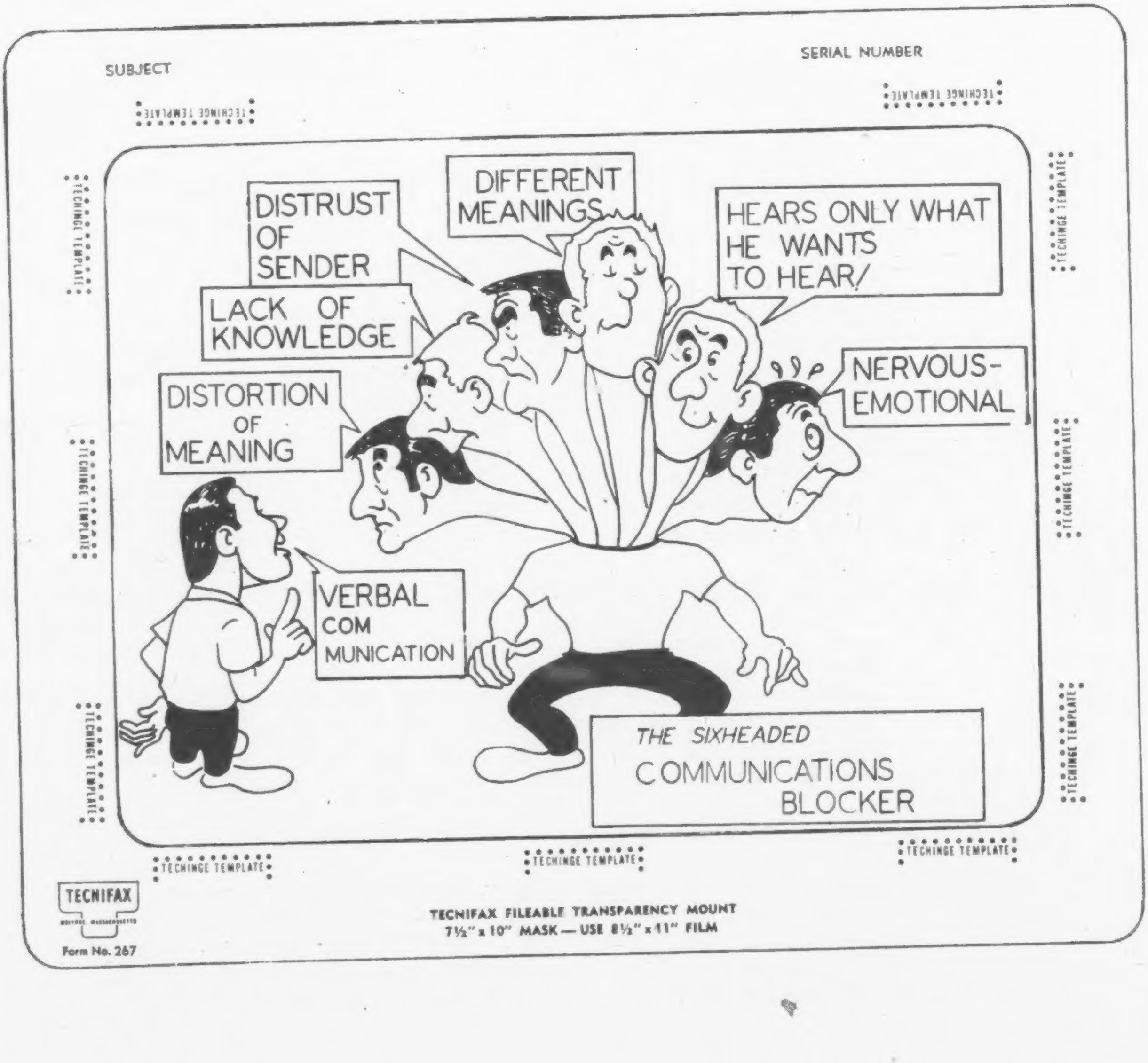
Consider the following situation:

> The teacher added a note to Johnny's report card saying, "Johnny isn't contributing in class." The next day Johnny came to school with a scribbled note that said, "We don't have much money, but here's a nickel."

d. The receiver may distrust the sender of the message.
You would tend to disbelieve a message sent to you from someone you distrust.

PM13

PM13-1 THE SIX-HEADED COMMUNICATION BLOCKER


SUBJECT
SERIAL NUMBER
DIFFERENT MEANINGS
DISTRUST OF SENDER
HEARS ONLY WHAT HE WANTS TO HEAR/
LACK OF KNOWLEDGE
NERVOUS-EMOTIONAL
DISTORTION OF MEANING
VERBAL COM MUNICATION
THE SIXHEADED COMMUNICATIONS BLOCKER
TECHINGE TEMPLATE
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

e. Words mean different things to different people.
You should try to use words that the receiver understands and make your phrases as clear as possible. For instance, if you ask one of your employees to do something "as soon as possible", he may not be sure whether you want him to do it immediately, or to do it as soon as he finished what he is doing.

f. People may be nervous or emotional.
One of your employees might be nervous when talking with you. This could prevent him from revealing what he really wants to say. Also, if you or one of your employees become angry or excited, communication can be difficult, or even impossible.

g. Noise and interruptions.
If the room is noisy or there are constant interruptions when somebody is speaking with you, effective communication can be very difficult.

6. Now that the students are somewhat more familiar with the use of the term 'roadblocks', ask if any of them have experienced some of these same problems. Encourage as many as possible to relate experiences which are examples of various types of roadblocks.

Suggestions to instructor: Try to have the student relating the experience determine what type of roadblock he is talking about. Ask the rest of the students if they agree. (Try to keep the discussion from getting off the track.)

7. Show the film, "Roadblocks to Communication". (30 minutes)

NOTE: There are roadblocks in the presentation of the film itself. That is, the terminology is sophisticated in spots and the points presented are not as clear as desired. However, the instructor will be able to clarify any difficult terminology. He will also be able to draw attention to any points which are not sufficiently clear in the film.

a. Setting: A woman is giving a speech on fallout shelters.

b. Overview: The film opens with a speech being presented. At the conclusion of the speech some members of the audience are asked for their reactions. We find that various 'sender' and 'receiver' filters (roadblocks) have interfered with the communication process. Included among those mentioned are:

(1) not listening.
(2) use of long, complicated sentences.
(3) reading the entire speech instead of just referring to notes occasionally.
(4) poor choice of words.
(5) not an expert on the topic.

Attention is then drawn to ways and means of overcoming these roadblocks. The three suggested in the film are:

(1) empathy (putting yourself in the other person's shoes)
(2) paying attention to what the other person says
(3) encouraging the listeners to ask questions.

Indicator

8. The instructor will be able to determine whether the objective has been achieved from the group discussion throughout the lesson.

OBJECTIVE 2: THE STUDENTS WILL BECOME AWARE OF SOME OF THE STEPS THEY CAN TAKE TO REDUCE, REMOVE OR OVERCOME BARRIERS TO COMMUNICATION.

Stimulus

1. Have one of the students write, "Ways of Overcoming Roadblocks to Communication" at the top of the flip chart. Ask the students to suggest ways that roadblocks may be reduced or eliminated and write these on the flip chart. If you have to help them get started, you may suggest one or more of the following:

   a. encourage feedback
   b. choose words carefully
   c. time messages carefully

Clarify Problem

2. Encourage discussion to ensure that the entire group fully understands each suggestion. Try to eliminate any roadblocks that may develop within the group.

Provide Information

3. Read Sections 2 and 3 of the Readings. Compare this material with the list on the flip chart. Encourage discussion and clarify where necessary.

2. Overcoming Roadblocks to Communication

The purpose of communication is to achieve understanding between the sender and the receiver. This is possible only if the roadblocks to communication have been overcome or eliminated.

As owner-manager you can take some of the following actions to reduce or eliminate roadblocks or barriers.

a. Encourage feedback.
If you hope to communicate effectively with your employees, information must flow in both directions. That is, from you to them and from them to you. Feedback can tell you:

(1) If you have communicated your ideas or instructions clearly and if further explanation is needed;

(2) if the words you are using are clear;

(3) if your employees have been listening to you;

(4) if your employees received the meaning you intended them to get from your message.

b. Choose your words carefully.
Each person attaches a somewhat different meaning to a message according to the meaning he has of certain words. Problems can arise if you assume that each listener or reader will attach the same meaning to words as you do. Therefore you must try to put yourself in the listener's shoes (that is, see things from his point of view) and use words as he would use them. Do not use words that he will find difficult to understand.

c. Time your messages correctly.
Communication should take place when there is the least interference from noise and other interruptions. If possible, avoid communicating with an employee or anyone else when that person is angry or upset.

d. Repeat important messages.
This will help overcome such things as noise and other distractions. It will also help to make sure that the other person gets the exact meaning of your message.

e. Follow up on your communications.
Check to see if the person understands your message. It is wise to check and see if the person is actually doing what you asked him to do.

f. Be honest and sincere in your communications.
If the listener trusts you, he will pay much closer attention to the message you are communicating to him. The more attention he pays, the better the communication will be.

g. Stop, look and listen.
Sometimes you may have such a strong opinion about what you are saying that you do not stop to give the other person a chance to say a word. If you fail to listen to what the other person has to say, you are blocking the communication process.

3. Summary

There are many reasons why people misunderstand each other's communications. Sometimes this misunderstanding leads to costly mistakes and hurt feelings. In your business, learn to recognize the causes of misunderstandings and other communication problems, and then work to eliminate or reduce them.

Indicator

4. Ask: "What suggestions were made in the film for overcoming roadblocks to communication?" Have one of the students list suggestions made by the group.

Note to instructor: The three suggestions made in the film are:

(1) empathy (putting yourself in the other person's shoes).
(2) paying attention to what the other person says.
(3) encouraging the listeners to ask questions.

Discuss the suggestions made in the film with the students. Relate to the list made in point 1, above.

The suggestions made by the students on ways to overcome roadblocks plus the discussion of the film, will allow the instructor to determine if the objective has been achieved.

SUBJECT PERSONNEL MANAGEMENT

LESSON PM14 THE GRAPEVINE

INSTRUCTOR'S GUIDE

OVERVIEW

The grapevine network of informal communication is most often identified with large businesses; however, it is just as important to a small business owner-manager because the success or failure of his business may depend on stopping incorrect rumours.

Most students will be aware of the grapevine or rumours from their experiences in their own communities. This lesson should help them understand the effect that rumours within the business and within the community can have on their businesses. The instructor's experience can be effective in helping students see the practical aspects of the grapevine. Public relations can be effective in providing good "rumours" which prevent or reduce harm done by the negative grapevine. Also good communications within the business between employer and employees on matters that concern the workers is important.

OBJECTIVES

1. The students will be aware of ways in which rumours spread and are distorted in an organization or community.
2. The students will think about ways in which they can prevent incorrect rumours from starting and spreading.

RESOURCES REQUIRED

1. Two flip charts.

2. Projectual PM14-1, "What Is the Grapevine?".
3. Film, "The Grapevine"

REFERENCE MATERIAL FOR INSTRUCTOR

1. "Nature of the Grapevine". (See multi-media kit).

METHODOLOGY

1. Do not hand out Readings.

OBJECTIVE 1: THE STUDENTS WILL BE AWARE OF WAYS IN WHICH RUMOURS SPREAD AND ARE DISTORTED IN AN ORGANIZATION OR COMMUNITY.

Stimulus

2. Prior to the lesson, have one of the following statements typed on a sheet of paper:

> Native people will not realize any treaty rights which they feel they have until they can agree among themselves what these rights are.
>
> OR
>
> The Small Business Management course will terminate next week due to a lack of interest on the part of the students enrolled.
>
> OR
>
> Any other statement desired.

NOTE: The above statements were chosen because of the emotional reaction that they may cause. The results could well be a greater distortion of the message than would be the case with other messages, because of individual interpretation. The instructor should explain this to the group at the conclusion of the experience.

In the classroom, tell the group you would like to carry out a communications experiment.

a. Show the written message to one person in the group. Do not show it to anyone else.

b. Ask this first person to read the message silently and then whisper it to the person next to him. Then ask the second person to whisper it to the next person. Continue until the message has been whispered in turn to each person in the group.

c. Ask the last person to receive the message to write down what he heard. Now write the message on one of the flip charts.

d. Now write the original message on the other flip chart and compare it with the message received by the last member in the group. (There will no doubt be some difference.)

Clarify Problem

3. Ask: "Why is there a difference in the message?" List and discuss the students' answers.

The main reason is that the message has been distorted. Remind the group that rumours usually carry some mixture of truth and error.

Provide Information

4. Hand out the Readings and read the Purpose and Introduction.

PURPOSE

In this lesson you will discuss ways in which rumours start and spread among people in a business or in a community. You will learn some ways you can prevent incorrect rumours about your business from starting.

INTRODUCTION

Rumours start and spread wherever groups of people gather together. At times, you will probably be faced with the problem of preventing rumours from starting, or stopping them once they start spreading. Incorrect rumours can hurt your business if they are not checked.

5. Ask the students for some examples of rumours they have heard that they knew to be badly distorted.

Indicator

6. Group discussion.

OBJECTIVE 2: THE STUDENTS WILL THINK ABOUT WAYS IN WHICH THEY CAN PREVENT INCORRECT RUMOURS FROM STARTING AND SPREADING.

Stimulus

1. Show the Projectual PM14-1, "What is the Grapevine?" Ask the students, "How do you think this grapevine would work?"

Clarify Problem

2. Discuss the projectual, explaining that the communications experiment earlier was a simple example of message distortion resulting from person to person one-way communication. The grapevine works in a more complicated way. Usually what happens is that one person tells the message to a group of people, then one or two persons from this group of people, pass on the message to other groups of people, etc.

   This general pattern is referred to as a "cluster chain". One link in the chain informs a number of people rather than just one person. For example, the boss's secretary might be a key link in the grapevine network because of her numerous contacts.

Provide Information

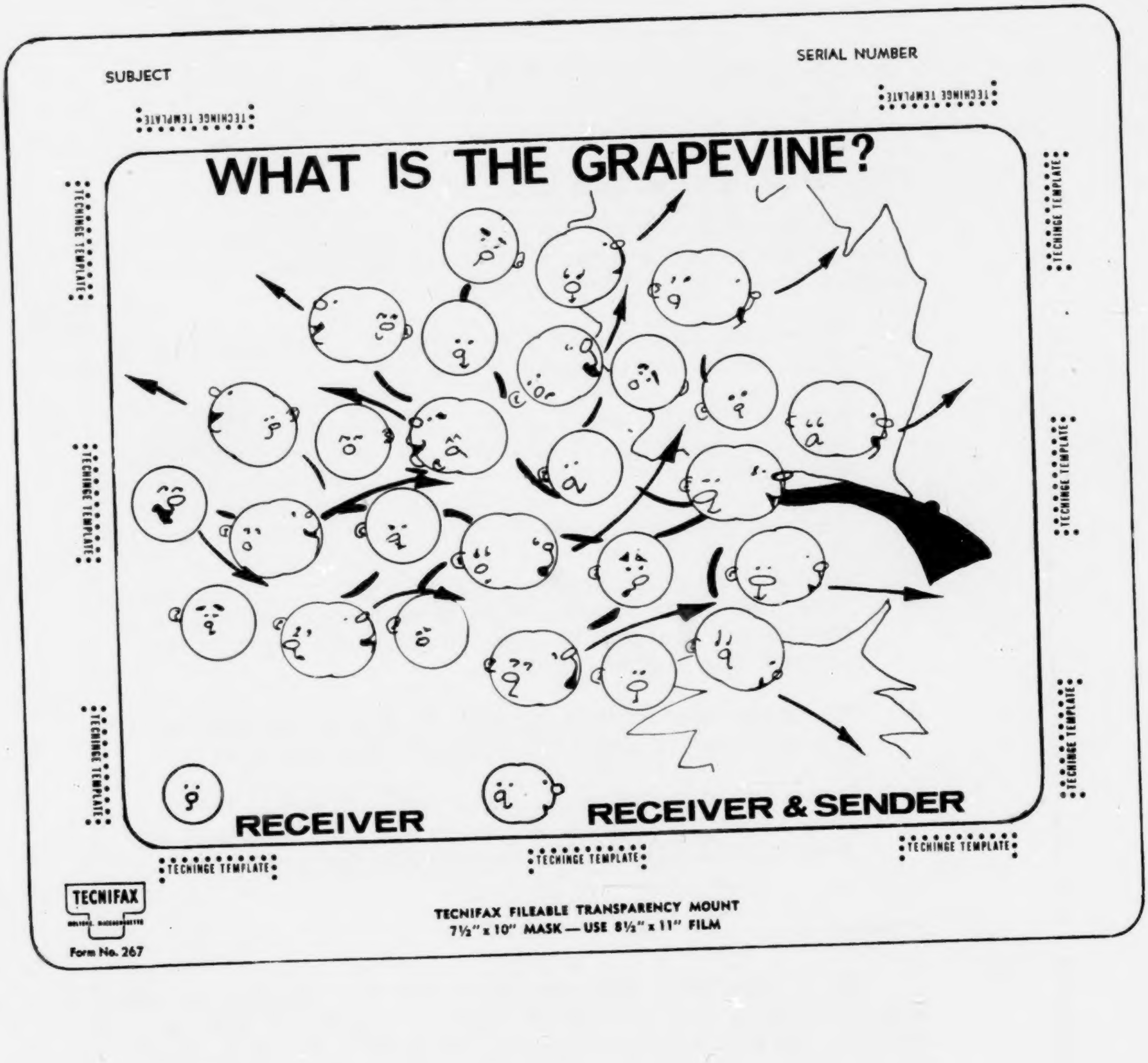
3. Read Section 1 of the Readings.

CONTENT

1. What is the Grapevine?

   The grapevine is an informal system of communication among people. For example, the talk that goes on among workers during a coffee break is part of the grapevine.

PM14-1 WHAT IS THE GRAPEVINE?


SUBJECT
SERIAL NUMBER
TECHINGE TEMPLATE
WHAT IS THE GRAPEVINE?
RECEIVER
RECEIVER & SENDER
TECNIFAX
Form No. 267
TECNIFAX FILEABLE TRANSPARENCY MOUNT
7½" x 10" MASK — USE 8½" x 11" FILM

The information that is discussed on the grapevine is called rumour. The spread of rumours follows a Grapevine or Rumour Network. Information travels very quickly through the grapevine.

Since many people are involved, the original message usually becomes very distorted or blown out of proportion.

The instructor should emphasize how very fast information travels in the grapevine.

4. Read Sections 2 and 3 of the Readings.

2. What Can You Do About the Grapevine?

There is no way you can stop all grapevine rumours. However, there are several ways you can prevent incorrect rumours from starting and spreading.

a. Share information with your workers. Tell them what is going on before rumours get started.

b. Provide complete and accurate information to your employees, customers, suppliers, etc. wherever possible. Make sure you tell the whole story, otherwise the grapevine will fill in the missing parts. These assumptions can hurt your business.

c. Once a rumour has started, and if parts of it are incorrect, the error is best removed by a clear statement of the facts. You should call your workers together and discuss the matter with them.

d. Encourage your workers to come to you and discuss with you any rumours about the business they may hear.

e. Recognize that the grapevine is not all bad. Try to keep the key people in the grapevine well-informed so that correct information is entering the grapevine.

3. Summary

It is important that you understand the workings of the grapevine among your employees, and learn ways to keep incorrect rumours from hurting your business. The best means to accomplish this is to provide enough accurate information on matters that concern employees so that they do not make incorrect assumptions.

5. Show the film: "The Grapevine" (8 minutes).

The film setting is the offices of the secretarial staff accounting section of a fairly large business.

a. First Scene
Shows how a rumour starts. One secretary is telling another that she heard the boss say he may sell the business.

b. Second Scene
Shows how the boss stops rumour in his office. He does it in a poor way. When secretary asks him about the rumour, he becomes angry and reprimands her.

c. Third Scene
Two weeks later. Shows how a second rumour starts in the boss's office. Secretary in boss's office hears only part of conversation between computer salesman and the boss. Secretary spreads rumour that two girls will lose their jobs because of new computer and an "outside" expert coming in.

d. Fourth Scene
Girls spread rumour in coffee shop. Distortion of rumour grows progressively worse, for example, transfer, laid off, fired, fired without notice. Girls are afraid to ask boss about this second rumour because he reacted angrily when asked about the first rumour. Girls decide to quit or find another job before the boss has a chance to fire them.

e. Fifth Scene
Boss calls two girls, Sally and Helen, into his office to tell them that they will be trained by the outside expert to operate the computer.

The girls do not give boss a chance to talk, they tell him they are going to quit.

Boss is surprised, he does not know what the girls are talking about. Boss finds out the girls think they are being replaced by a computer (the rumour). Boss now tells them rumour is not true, the expert was just coming in to train them to operate the new computer.

f. End
Boss asks himself, "How can I keep these rumours from getting started?"

Indicator

6. Ask, "Why do rumours get started? How do they spread? How can incorrect rumours be prevented?"

   Replay film, if necessary.

SUBJECT PERSONNEL MANAGEMENT

LESSON PM15 DISCIPLINING YOUR EMPLOYEES

INSTRUCTOR'S GUIDE

OVERVIEW

Many people find it difficult to discipline employees. Because they find it difficult, employees are often left undisciplined too long. It then requires drastic action on the part of the manager. Discipline is sometimes overdone and can be very disagreeable. The student should realize that discipline should be a normal activity of a manager which he carries out as required.

No matter how good a manager is at selecting and supervising employees, there are bound to be times when disciplinary action is necessary. The problem of discipline becomes more difficult if the employees are relatives or friends.

There is a chance that the student does not see the matter of discipline as a very immediate problem for him since he may not have his business lined up yet. The instructor can show the student the importance of knowing before he faces a disciplinary situation how he wishes to carry out the disciplinary job. The job of reprimanding (scolding, chewing out, calling down, etc.) employees is not a pleasant one, but is one which anyone in charge of employees must face.

OBJECTIVE

Students will consider when and how to discipline a misbehaving employee.

PM15

RESOURCES REQUIRED

1. Films: "Discipline: Reprimanding" (10 minutes)
   "Late For Work" (3 minutes)

2. Projectual PM15-1, "How To Discipline Your Employees".

METHODOLOGY

1. Do not hand out the Readings at this point

OBJECTIVE: THE STUDENTS WILL CONSIDER WHEN AND HOW TO DISCIPLINE A MISBEHAVING EMPLOYEE.

Stimulus

2. Set up the following situation with one of the students prior to this lesson.

   a. Situation. You come into class and wait for the group to settle down. Then start to scold one of the students in front of the group about some misbehaviour of his (you may have arranged for the student to come in late or he may not be paying attention in class, etc.). You can start out by saying -- "You know, (name), I have meant to talk to you about this problem of yours for a long time. We can't put up with it any more -- etc." Give this student a real calling down. The student does not say anything.

   b. This situation must of course be arranged ahead of time with the student who is receiving the reprimand. It will be more realistic if a student who actually has been misbehaving in some minor way is used.

   c. After scolding the student, be silent for a minute or so and observe the reactions of the students. You and the disciplined student should not let on that you have pre-arranged this situation.

Clarify Problem

3. Now pass out the Readings and read the Purpose and Introduction with the students.

PURPOSE

In this lesson you will look at the way you should discipline (scold, reprimand, correct) your workers who misbehave.

INTRODUCTION

What will you do when a worker does something wrong? Will you try to correct his behaviour (discipline him)? When and where will you discipline him? Will you talk to him in private or will you scold him in front of other workers?

No matter how good your workers are they will probably misbehave in some way. If this behaviour is hurting your business, you will have to discipline the worker.

Now is the time to think about what you will do when you have to discipline an employee.

4. a. Discuss the way in which you scolded the student at the beginning of the lesson.

   Ask: "What was wrong with the way the instructor disciplined the student?"

   Suggest (if the students do not) that it was the wrong time, place, and way to discipline.

   Ask: "How will you (as a boss) discipline your employees who misbehave?"

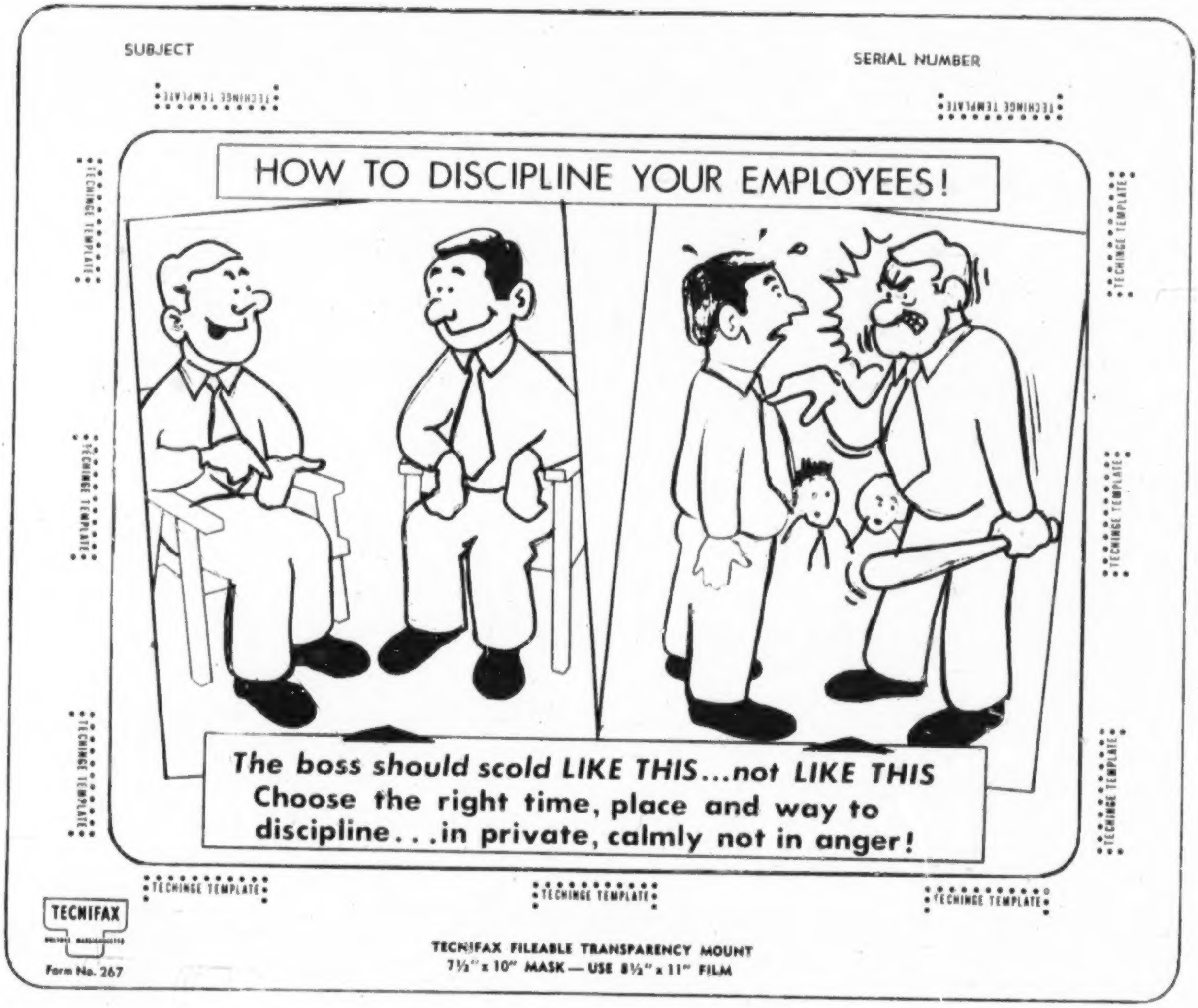
   b. Show Projectual PM15-1, "How to Discipline Your Employees" while discussing this question. Leave this projectual on and refer to it again when discussing the Readings.

Provide Information

5. Read remainder of the Readings with the students. Ask the students for personal experiences relating to this material. Also discuss the problems of disciplining employees who are relatives, friends, etc.

PM15

PM15-1 HOW TO DISCIPLINE YOUR EMPLOYEES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7½" x 10" MASK — USE 8½" x 11" FILM

HOW TO DISCIPLINE YOUR EMPLOYEES!

The boss should scold LIKE THIS...not LIKE THIS
Choose the right time, place and way to discipline. . .in private, calmly not in anger!

CONTENT

1. How [illegible] Tell If Discipline is Needed?

Every job in your business will require a worker to behave in a certain way. When you think the worker is acting in some way that hurts your business, you will have to correct his behaviour. For example, if you have a clerk working in your store he will have to act politely towards customers. If he is sarcastic to customers, then you will need to correct this misbehaviour.

It is not always easy to tell if discipline is needed. Have you ever been disciplined when you felt you should not have been?

As a boss you have to decide if discipline is needed. You also have to be sure you discipline the right man. Have you ever been disciplined for something you did not do?

2. How Should You Discipline Your Employees?

There is a right TIME, PLACE, and WAY to discipline your employees.

a. Time
Do not wait too long after the employee misbehaved to discipline him. If you wait too long the employee may think you are unfair. Also it is best to correct bad behaviour before it goes too far. For example, if your store clerk is sarcastic you should correct him quickly, before he loses you too many customers.

b. Place
Do not scold a worker in front of other people. This is not fair. Instead, talk to him in private.

c. Way
What do you think is the best way to discipline a worker? Should you be sarcastic? Should you make him feel bad? Should you give him a chance to explain his side of the story?

When you scold or reprimand one of your workers, you should do it in a way that helps him understand how to do things correctly. Give him suggestions on how he can improve his behaviour. Discipline will work best if you can get the employee to co-operate with you to improve the situation.

Remember, when discipline is necessary:

	A Good Boss	A Poor Boss
a.	keeps calm	becomes angry
b.	knows the facts about what the employee did wrong	does not know all the facts
c.	considers the feelings of the employee	ignores the feelings of the employee
d.	talks to the employee alone (in private)	scolds the employee in front of others
e.	includes some praise for the things the employee does well	just gives him hell; does not mention any of the employee's good points

3. Summary

Discipline your employee as soon as possible after he misbehaves.

Do not reprimand your employee in front of others.

Use constructive criticism. Tell the worker what he should do -- do not just run him down.

6. Show and discuss the film, "Late for Work". (3 minutes)

NOTE: This film was shown before in Lesson PM3, "Different Types of Leaders".

a. Summary of Film Content
Shows boss and other employees holding a meeting in the morning. One employee, Doug, is late. Boss becomes angry and bawls out Doug in front of the group. Doug becomes angry too and walks out.

b. Instructions on How to Use the Film
Show and discuss film. Replay if necessary. Ask:

(1) "What would you have done if you were the boss?"
(2) "How do you think the employee (Doug) felt?"

7. Show the film, "Discipline: Reprimanding" (10 minutes).

Before starting the film, define:

- reprimand - blame, scold
- discipline - keeping things in order
  - correcting misbehaviour

Ask the students to ignore the big business setting and to put themselves in the shoes of the boss, or of the worker who is being disciplined.

a. Summary of Film Content

Film begins with an office scene. Narrator mentions, "In achieving discipline, occasions arise when the supervisor must reprimand a worker. These situations must be handled carefully. The supervisor must have all the facts before he reprimands."

(1) Situation 1: Shows boss scolding a worker in front of others. Boss does not have all the facts -- he does not know that the worker has been away because of his daughter's illness.

(2) Situation 2: Shows a boss using sarcasm in scolding worker.

(3) Situation 3: Shows where boss scolds worker in front of others.

(4) Situation 4: Shows where a supervisor scolds just to show her authority.

(5) Situation 5: Shows where a boss threatens a worker. Does not give a worker a chance to explain.

(6) Situation 6: Shows how a reprimand should be given. Shows a situation where a girl wants time off. Girl has a poor record - many days off and lateness problem. Boss calls girl into his office. Boss handles situation well. He gives her credit for what she does well then tells her she has some bad points.

b. Instructions on How to Use the Film

Show the entire film first, then re-run the film stopping after each of the situations above.

(1) After situation 1, ask: "How should the boss have behaved?" Narrator mentions: "Personal abuse and sarcasm have no place in reprimanding".

(2) After situation 2, ask: "Did the boss have any respect for the worker's feelings?" Narrator comments: "Reprimands should be given in private. Humiliating an offender is bad practice."

(3) After situation 3, ask: "Why should discipline be given in private?" Narrator comments: "The supervisor should not scold and nag for the sake of showing authority."

(4) After situation 4, ask: "Should a supervisor scold just to show his authority?" Narrator comments: "Do not use threats in reprimanding."

(5) After situation 5, ask:

(a) "What should the boss have done?"
(b) "How should reprimands be given?"

List suggestions to question (a) on the flip chart.

(6) After situation 6, the narrator comments: "You have just seen a reprimand that has been handled properly. Can you apply these principles to situations that confront you?"

Indicator

8. Discuss this last question with the students. Ask them to list on the flip chart how a reprimand should be given and how it should not be given. Refer back to the Readings and the projectual if necessary.

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